

السنة الأولى

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

EUROPE  
Brussels plans EC  
export credits pool  
Page 4

Wednesday November 7 1990

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World News

Business Summary

## Gorbachev may offer republics right to quit

President Mikhail Gorbachev is giving the 15 Soviet republics a virtual free hand to decide a free choice as to whether they remain members, according to his top adviser on national relations. Page 26

## Gulf plea to China

US secretary of state James Baker has appealed for Chinese backing for further United Nations measures to force Iraq's withdrawal from Kuwait. Page 26

## Apartheid apology

Professor Willie Jonker of Stellenbosch University, a white theologian of South Africa's Dutch Reformed Church, won praise and forgiveness from Archbishop Desmond Tutu by calling apartheid a sin. Page 26

## Close Irish race

Sacked cabinet minister Brian Lenihan and left-wing lawyer Mary Robinson are neck and neck in the race for the Irish presidency with 42 per cent each, final opinion polls say. Voting is today. Page 3

## Gandhi's choice

Indian opposition leader Rajiv Gandhi has publicly backed veteran socialist Chandra Shekhar's effort to form a government, saying it would pull India back from the brink of chaos. Page 6

## Hawke less popular

Australian prime minister Bob Hawke called an emergency cabinet meeting after opinion polls showed the opposition ahead and his own popularity waning. Page 6

## Sharif elected

Nawaz Sharif was formally elected as Pakistan's new prime minister by the National Assembly but only after ousted premier Benazir Bhutto led a brief walkout. Page 6

## Denial on dolphins

Japan's foreign ministry denied reports that local fishermen recently slaughtered 600 dolphins to protect fishing grounds. "It was mass suicide," a ministry spokesman said. Page 6

## Torture in Burma

The army and at least five security agencies in Burma are involved in widespread torture of political detainees, Amnesty International said. Page 6

## American kidnapped

Communist rebels fleeing a gun battle with troops kidnapped an unnamed American in the northern Philippines. Page 6

## Eight die in pile-up

At least eight people were killed and many more injured in a pile-up involving up to 100 vehicles near Breda in the Netherlands. Page 6

## Treaty revised

Austria decided to drop provisions of the treaty of independence which have limited its sovereignty since the Second World War. Page 6

## New primate named

Bishop Cahal Daly, an outspoken critic of the Irish Republican Army, will be the new spiritual head of Ireland's 4m Roman Catholics. Page 9

## Indonesia says no

Indonesia rejected a proposal for peace talks by the Fretilin left-wing independence movement in East Timor, refusing to recognise the group's existence. Page 9

## Embassies to close

Algeria is to close 14 embassies and 10 consulates around the world as an austerity measure. Page 9

## Truffles trilled with

Four truffle wholesalers who supply about 90 per cent of the French market have been charged with drying cheap white truffles black and passing them off as the genuine article. Page 9

## RWE to take 75% stake in east German power grid

RWE, Germany's biggest utility group, has formed plans with two other large west German utilities to take a 75 per cent stake in east German electricity grid from the start of next year. Friedrich Kieske, chief executive, announced plans for capital spending of DM5bn (\$3.3bn) in east Germany over next five years. Page 27; Lex, Page 26

**MARKETS:** Wall Street: The Dow Jones Industrial Index closed 17.06 down at 2,485.15. Tokyo: Nikkei closed down 419.58 at 23,955.75, finishing below 24,000 for first time since October 17. Frankfurt: DAX index fell below 1,400. Back Page, Section II

**COOKSON,** debt-laden UK industrial materials group, is selling its graphics subsidiaries to International Paper of the US for \$110m (\$133m). Page 27; Lex, Page 26

**BRAZIL'S** privatisation programme has hit technical and legal hitches, which are likely to push back to March first privatisation. Page 6

**SANITEC,** bathroom equipment subsidiary of Finnish industrial company Wartsila, will acquire 75 per cent of French Allia group for around FF900m (\$183m). Page 27

US and Thai negotiators have failed to reach agreement on important bilateral accord, this time covering air traffic. Page 4

**FRENCH** stock exchange plans new set of rules covering bond trading, which would return to it supervisory authority over market. Page 31

**OLYMPIC** bankruptcy of medium-sized Tokyo property company has raised fears that softening of Japan's real estate market will soon claim larger victims. Page 26

**EUROPEAN** Commission is expected formally to propose to EC governments setting-up of a common pool to underwrite contracts in eastern Europe. Page 4

**TELEPHONE** cards: Frauds on phone-cards may have lost telecommunications companies around the world millions of dollars. Page 36

**ITALY'S** government bond market will be boosted by admission of three new banks as primary dealers. Page 31

**BONN** has borrowed DM15bn (\$12.5bn) over past few months through issues of promissory notes placed with domestic and foreign investors to help fund costs of German unity. Page 31

**TYRE** Manufacturers: Stalemate between Continental and Pirelli deepened after Pirelli's rejection of German group's proposal to freeze takeover plan for two years. Page 26

**USINOR** Sadril, world's second largest steelmaker, has reported a 28 per cent fall in first half profits. Page 26

**SOVIET** Union's first stock exchange is intended to start trading within two months. Page 2

**HONG KONG'S** manufacturing industry is being hit by downturn in rate of overseas investment which rose by only 14 per cent last year. Page 8

**UNITED** Artists Entertainment, US cable television and cinema group, is poised to take controlling interest in Super Channel, European satellite channel. Page 26

**HILLSDOWN** Holdings is preparing to drop rescue package for Strong & Fisher, leading UK producer of fashion leathers, which would then be almost certain to go into receivership. Page 32

**HITACHI** Information systems division of Japanese electronics company is near finalising plans for first European equipment factory. Page 4

## Violent reprisals feared after assassination of Kahane

By Hugh Carnegie in Jerusalem and Alan Friedman in New York

MEMBERS of Israel's violently anti-Arab Kach party called for revenge yesterday after the assassination in New York of the party's leader Rabbi Meir Kahane.

The Brooklyn-born Mr Kahane, 58, the extremist Israeli politician, was shot in the head at point-blank range after addressing 70 members of a Zionist group in the New York Marriott hotel on Lexington Avenue near 48th Street. It came at a time of unusual volatility in Israel and the occupied territories, following

a surge of Arab-Jewish violence in recent weeks and deepened hostility between the two communities over the Gulf crisis.

Mr Kahane's death sharply raised tensions in Jerusalem, where the Kach party is based. Security forces were reinforced in Jerusalem and elsewhere amid fears of reprisals.

Two elderly Palestinians were killed in a West Bank village shortly after news of the death was broadcast. Suspicion fell on Jewish settlers in the West Bank. "I hope it was

revenge," said Mr Baruch Marzel, a spokesman for Kach.

Mr Avi Pazner, spokesman for Mr Yitzhak Shamir, the prime minister, condemned the murder while stressing that the "great majority" of Israelis disagreed with Mr Kahane's views. He said the government would do its utmost to prevent further violence. Mr Yoel Ben David, a Kach activist said earlier, "I promise you there will be a river of Arab blood. Kahane will take more Arab blood with him in his death than when he was alive."

Mr Kahane's assassin was identified by New York police as Mr El Sayyid A. Nosair, a New York City worker who is either Egyptian-born or of Egyptian descent. The gunman was under armed guard in hospital after having been shot in the chin by a postal office policeman who was returning Mr Nosair's fire as he escaped. Federal authorities have yet to determine whether the murderer was acting alone or in concert with extremist Arab groups, a US State Department official said yesterday.

Mr Kahane's body was due to be flown back from New York for burial in Jerusalem today and police will be on full alert to prevent disturbances before and after the funeral. Israeli politicians united in condemning the assassination while disassociating themselves from the views of Mr Kahane. He advocated the physical removal of Palestinians from Israel and the occupied territories. His policies led to the banning of Kach from the Knesset in 1988. Mr Kahane had been elected its sole MP

four years previously. Mr Ya'ir Tsaban, leader of the left-wing Mapam party, said he was afraid the killing would further racist tendencies in Israel and could spark "a chain of mutual personal assassinations." Palestinians were concerned about a backlash but had little sympathy for Mr Kahane. Mr Radwan Abu Ayyash, head of the Arab Journalists Association, said Mr Kahane had been consumed by a fire he had kindled himself. Fatal attraction, Page 8

## EC reaches compromise to reduce farm subsidies

By Tim Dickson in Brussels

THE URUGUAY Round trade talks were kept alive last night when the European Community finally agreed to cut its farm subsidies by 30 per cent.

EC farm and trade ministers broke a 33 day deadlock by agreeing a package of measures which will be forwarded to Geneva for the final stages of the four year long international negotiations, held under the auspices of the General Agreement on Tariffs and Trade (GATT).

At the end of a tense day of rumour and steadily rising expectation, a delicate consensus within the EC was achieved when the French farm minister Mr Louis Mermeas signalled his willingness to accept assurances that changes to the Common Agricultural Policy would not undermine French farmers via a flood of cheap imports from the world market. Mr Mermeas had proved the

biggest obstacle to an EC deal after Mr Ignaz Kiechle, his German counterpart, reluctantly softened his previously intransigent stance at an earlier meeting of the EC's Council of Ministers. The French farm minister, however, was in distinctly more amiable mood during yesterday's 10 hour negotiating session - a change of tone widely attributed to discussions held overnight with the French president Mr Francois Mitterrand.

The final wording of the complex text - ostensibly the cause of hundreds of hours of discussion in the seven EC council meetings specifically devoted to the issue - is arguably less important than the fact that the EC will now be able to table a formal offer.

The US and the Cairns Group of countries which includes Australia and New Zealand have all threatened to walk away from the Uruguay

Round unless there are much more significant concessions on farm reform - but it now seems certain that they will accept the EC's offer, albeit reluctantly, as the basis for the final negotiations which culminate with a meeting of all 105 participating countries in Brussels next month.

Despite the huge differences between member states and the bitterness of the past few weeks, virtually all member states claimed the final compromise was a victory for their point of view. Mr Frans Andriessen, the EC external relations commissioner, who will lead the EC negotiating team in Geneva, nevertheless confessed that certain concessions made to member states would not make his job any easier.

Most EC diplomats and officials agreed that the main message from the EC's painful deliberations is that this pack-

age represents not only the EC's opening offer but, as one participant put it, "pretty close to the final offer." Many feel that the US and Cairns Group demands at Geneva for a 75 per cent cut in internal farm supports are unrealistic and that their bluff will now be called. At the same time, however, if expectations of a substantial deal on farm subsidies has to be scaled down there will be a significant knock on effect on what can be achieved in other Uruguay Round areas such as tariff reductions and liberalisation of the services sector.

Not for the first time at the end of an agriculture council in Brussels, the final text enabled all sides to claim the credit. After the meeting Mr Mermeas listed a large number of safeguards which he said would limit the impact of the original European Commission proposal. Carla Hills' plea, Page 4

## Thatcher may face early challenge

By Philip Stephens in London and Hugh Carnegie in Jerusalem

POLITICAL allies of Mrs Margaret Thatcher, the British prime minister, sought yesterday to flush out a possible challenge to her by bringing forward to next week the deadline for a leadership contest.

The decision came amid speculation that dissident Tory MPs were preparing to sponsor a "stalking horse" candidate to test Mrs Thatcher's grip on the party. Mr Michael Heseltine backed away from a challenge, however, and no other Tory MP was prepared publicly at this stage to put his or her name forward.

The announcement of a tight timetable for any contest will be followed by what senior ministers said would be one of the most important speeches of Mrs Thatcher's political career after the state opening of parliament later today.

With Mr Neil Kinnock, the opposition Labour party leader, preparing to attack her as "unfit" to govern, she faces pressure from colleagues to adopt a more emotive tone on policy towards Europe. If she does not, then she will face serious unrest among ministers as well as backbench MPs.

Mr Heseltine, whose blunt attack on Mrs Thatcher in an open letter to his constituency at the weekend prompted a storm of controversy, denied that he would seek to unseat her.

The former defence minister, on a visit to Israel, faced criticism from his local party for appearing to undermine Mrs Thatcher. The executive of the Henley Association, in a curt reply drafted with the help of an official from Conservative Central Office, said it supported the present leadership.

In a move which surprised some of his supporters, Mr Heseltine responded by insisting he still believed that Mrs Thatcher would lead the government to victory at the next general election. Sir Geoffrey Howe, the former deputy prime minister whose resignation last week sparked the present crisis, has also made it clear that he will not provoke a contest.

The consensus among Conservative MPs was that Mr Heseltine's apparent attempt to destabilise Mrs Thatcher had backfired and that his hopes Continued on Page 26

## Bundesbank urges pay restraint as contribution to unity costs

By Andrew Fisher in Frankfurt

GERMAN WORKERS should be prepared to accept lower wage rises as part of the national contribution to the costs of unity, the Bundesbank said yesterday.

The unusually forthright statement on high wage expectations in the public sector, by Mr Hans Tietmeyer, a senior director of the central bank, came amid mounting speculation that the costs of unity and their financing - and confusion over suggestions that there will be a huge drop in expected tax revenues from east Germany.

But the finance ministry urged caution about reported estimates of a 30 per cent drop in projected east German tax revenues in the next few years, including a DM14bn (\$9.2bn) gap in 1991, compared with earlier forecasts by the former east German government.

The ministry said there was no reliable data for tax estimates for east Germany. Mr Tietmeyer's language contrasted with the usual diplomatic vagueness of Bundesbank comments on pay trends

and gave a sharp new emphasis to the bank's growing concern about unity financing. He said he was "very surprised" by the size of the pay claim contemplated by the public sector union OTV, which has 1.2m members.

Although he mentioned no figures and the union has yet to make a formal claim, OTV officials have made clear they intend to ask for between 6 and 7.5 per cent, or roughly twice the level of inflation.

"It is really unbearable if the negotiators in the public sector and also in private industry content themselves with 1 or 2 per cent lower wage increases," asked Mr Tietmeyer, a former state secretary at the Bonn finance ministry and a close adviser to Chancellor Helmut Kohl on unification.

In a paper produced yesterday for the parliamentary budget committee, the Bundesbank said price and interest rate stability could be endangered if the rise in the public sector deficit was not curbed next year by budget savings and subsidy cuts.

It pointed out that borrowings for companies and public housing would rise sharply, while private savings were likely to ease. The increasing state debt could cause problems for the capital markets.

Mr Tietmeyer's comments on pay were part of a speech in which he repeated the Bundesbank's view that the states (Länder) and local authorities should postpone some investment projects to help finance unity costs.

Unemployment in west Germany fell to its lowest level for eight years in October, while the jobs total in east Germany continued to rise sharply, the Federal labour office said yesterday.

West German unemployment fell by 10 per cent compared with October 1989 to 1.7m, or 6.5 per cent of the workforce. The east German figure rose by 21 per cent from September to 538,000, or 6.1 per cent of the workforce. Short-time working in October affected 1.8m east Germans, which is 38,000 more than in September.

## American elections put Bush to the test



President George Bush casts his vote in Houston during mid-term elections yesterday. The president has spent several days in Texas supporting Republican Clayton Williams' bid to become governor, but returned to Washington immediately after voting to monitor election returns.

Concerned with the economy and the Gulf crisis, voters are expected to trim the strength of Mr Bush's Republican party at national and state levels. White House Chief of Staff John Sununu predicted Republican wins in governors' races in Ohio and California, but said governorships in Texas, Florida and Illinois were too close to call.

At stake in the elections are all 435 seats of the House of Representatives, 34 of 100 Senate seats, 38 of 50 state governorships and more than 6,000 state and local offices.

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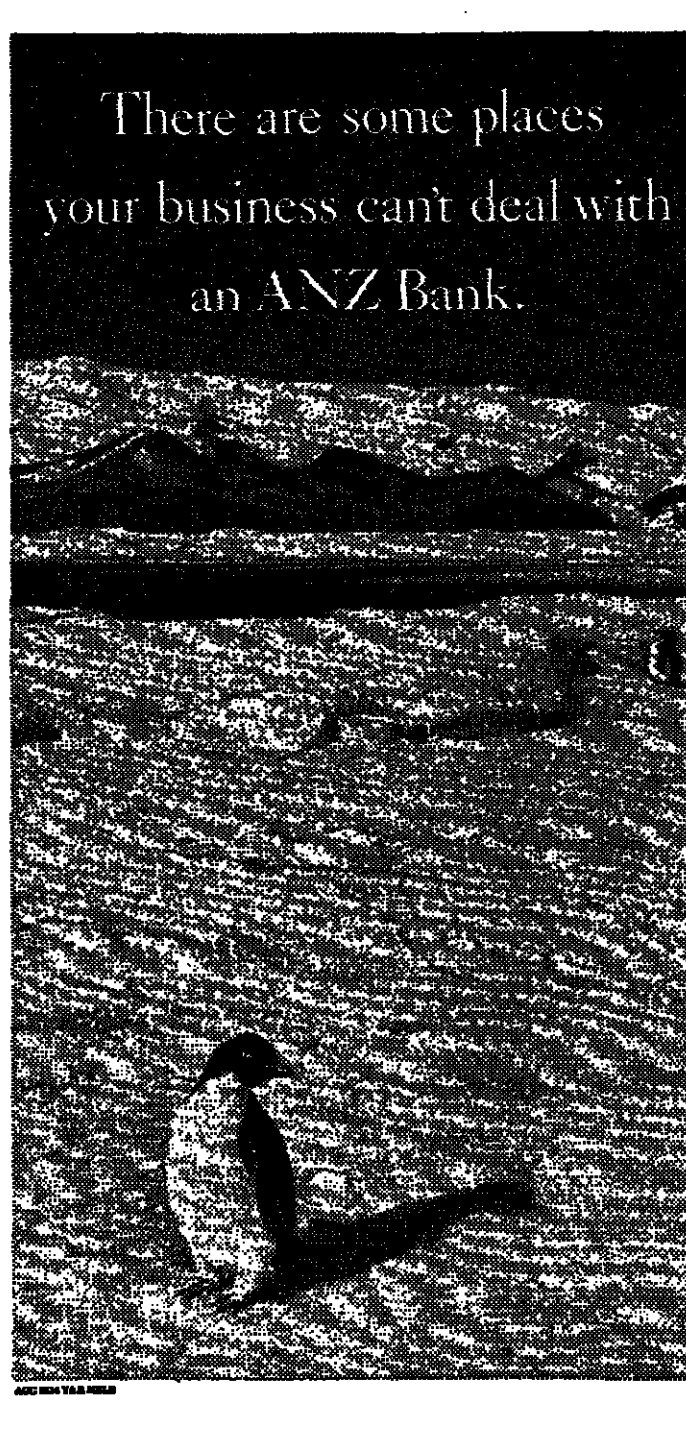
### Slovak nationalism threatens to divide Czechoslovakia

President Vaclav Havel of Czechoslovakia was confronted with the separatist demands of the Slovak National Party at every turn during a tense visit to Slovakia. It will take all of his authority to avert a break. Page 2

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### MARKETS

<b>STERLING</b> New York close \$1.9555 (1.9735) London \$1.9735 (1.9705) DM2.9325 (2.9275) FF9.5375 (9.5225) SF2.4650 (same) ¥251.25 (249.75) £ index 94.4 (94.3) <b>GOLD</b> New York: Comex Dec \$384.1 (381.1) London \$380.25 (377.0) <b>IN SEA OIL (Argus)</b> Brent DEC \$32.30 (32.7) Chief price changes yesterday: Page 27	<b>DOLLAR</b> New York close DM1.4830 (1.488) FF5.0070 (4.984) SF1.2550 (1.2505) ¥128.20 (126.55) London DM1.4885 (1.488) FF4.9850 (same) SF1.2490 (1.2505) ¥127.25 (126.75) £ index 58.8 (60.0) Tokyo close: ¥127.20 <b>US closing rates</b> Fed Funds 7 1/2% (7 1/4%) 3-mo Treasury Bills: yield: 7.30% (7.28%) 10Y 1/2 (10Y 1/2) yield: 8.63% (8.62%)	<b>STOCK INDICES</b> FT-SE 100: 2,009.6 (+18.7) FT Ordinary: 1,598.9 (+17.8) FT-A All-Share: 997.79 (+0.8%) New York close DJ Ind. Av. 2,485.4 (-17.08) S&P Comp \$11.82 (-2.97) Tokyo: Nikkei 23,955.75 (-419.58) <b>LONDON MONEY</b> 3-month interbank closing 13 1/2 (13 1/2%) Life long gilt future: Dec 84 1/2 (84 1/2)
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ANZ Worldwide



## EUROPEAN NEWS

## Leningraders seek bread not circuses

By Leyla Boulton in Leningrad

MR ANATOLY SOBCHAK, the radical mayor of Leningrad, hopes that today's celebrations of the Bolshevik revolution, launched here 73 years ago, will be the last of their kind.

But the ex-communist, who has previously urged Leningraders to stay at home, plans to take the salute at the military parade on Palace Square where Lenin staged his bloodless coup on October 25, 1917 (November 7 by today's Gregorian calendar).

"It was important not to clash with the centre over this issue, but I hope that in a year's time we will have a new constitution and new holidays," Mr Sobchak said in an interview yesterday. "Countries celebrate the foundation of their state, whereas this revolution destroyed a state."

To counter opposition to the celebrations in many parts of the Soviet Union, President Mikhail Gorbachev has ordered military parades to go ahead across the land. In Leningrad, anti-communist parties are staging a counter demonstration to mourn the revolution as "the most tragic day in the 20th century."

Along the main avenue, Nevsky Prospekt, which was the old St Petersburg's banking centre, long queues of people were waiting for food yesterday. But, while many Leningraders are tired of both politics and queues, they still value the opportunity offered by this two-day holiday.

A survey published by the popular Leningrad weekly, Chas Pika (Bash Hour) showed that 51 per cent of Leningraders see November 7 as a holiday. It added that 52 per cent favoured keeping intact all monuments to Lenin and other



Mayor Sobchak: reluctant celebrant of the revolution

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RIVAL demonstrations by the Red Army, communist party loyalists, and radical and democratic activists, are planned across the entire Soviet Union today, raising acute fears of open clashes, and of a backlash by the Soviet military establishment, writes Quentin Peel in Moscow.

Even in Moscow's Red Square itself, the traditional massive military parade, including the country's most modern ballistic missile for the first time in a decade, is supposed to be followed by a radical and hostile alternative march. In between the two, the city communist party is attempting to turn out the usual thousands of smiling workers and children to celebrate the anniversary of the 1917 October revolution, after the city council refused to organise it. Another demonstration is planned by the more moderate democratic parties, to mourn the victims of 73 years of communism.

Similar open manifestations of the chaotic political debate in the country, and the rising tide of hostility to the communist party, are planned in dozens of big cities. In some, like Georgia's Tbilisi, the military has been compelled to hold its parade within the confines of its barracks for fear of arousing public hostility.

In Lvov, in the western Ukraine, the nationalist local council has simply banned the communist party from holding any demonstration, and declared the national holiday to be regular working days.

The same has happened in Latvia. And in cities like Volgograd and Voronezh, as in Moscow, rival demonstrations - one celebrating, and one mourning - are planned.

Petersburg. Mr Sobchak believes that the city cannot for the moment afford the money for a name change. He said city authorities had just discussed the possibility of introducing a rationing system to see the city through the winter.

"Will there be more food in the shops if we change the name?" asked one old lady in a queue. A student disagreed: "Lenin is not worthy of giving his name to the city. He was not the man they made him out to be all these years."

There are ironic echoes of the revolution in Leningrad this year. But the atmosphere of crisis stems not from war and revolution as in 1917, but from economic collapse as the old communist order totters.

The reforms include an increase in the role of the central bank and the possible establishment of commercial banks in a bid to obtain foreign credits. Foreign loans were banned by the communist party until May but Albania is believed to have about \$30m in short-term debt and \$25m in long-term debt, which falls due over the next 13 years. Albania also hopes to join the IMF next year.

Devaluation of the currency by 100 per cent, to 20 lek to the dollar, is planned for January. The black market rate is about 100 lek to \$1.

The government is opening the door to some foreign investors, who are mostly of Albanian origin, to build hotels or sell key consumer goods with profits expatriated through barter.

Meat and produce shortages in recent months have helped to accelerate the limited privatisation of agriculture. There are now about 10 private meat markets in Tirana. Mr David Gashehi, a private butcher, who earns about 1,000 lek per month, says proudly: "I make twice as much money, but I work three or four times harder."

Despite these concessions to a free market, Albania's cautious reforms have ignored the deep structural problems in the economy.

Mr Gramoz Pashko, an economist at Tirana's Enver Hoxha University, says Albania needs to overhaul its economy. He cites state protection of heavy industry, which is completely subsidised, as an example of "privilege in excess", and urges a surgical strike to reform the economy.

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## Albania opens the door to reforms

By Laura Silber, recently in Tirana

BRIGHTLY coloured signs throughout Albania sing the praises of the Party of Labour, promising diligent workers a prosperous future.

Yet the true picture is far from the party propaganda. Enterprises are inefficient, consumer goods are in short supply, industrial centres are environmental disasters, and agricultural production cannot satisfy demand. An Albanian worker with an average salary of 475 lek (247 pence) lives in poverty.

The dismal state of the economy has forced the leadership to practise a delicate balancing act. President Ramiz Alia is trying to preserve Albania's orthodox communist ideology while opening up the long-isolated economy to attract foreign investment.

The leadership has repeatedly vowed that Albania will not deviate from its socialist path. Mr Hekuran Mara, an economist and deputy chairman of Albania's Academy of Sciences, says: "Albania's reforms will not overthrow the old system, but gradually develop a new course for the economy."

The reforms include an increase in the role of the central bank and the possible establishment of commercial banks in a bid to obtain foreign credits. Foreign loans were banned by the communist party until May but Albania is believed to have about \$30m in short-term debt and \$25m in long-term debt, which falls due over the next 13 years. Albania also hopes to join the IMF next year.

Devaluation of the currency by 100 per cent, to 20 lek to the dollar, is planned for January. The black market rate is about 100 lek to \$1.

The government is opening the door to some foreign investors, who are mostly of Albanian origin, to build hotels or sell key consumer goods with profits expatriated through barter.

Meat and produce shortages in recent months have helped to accelerate the limited privatisation of agriculture. There are now about 10 private meat markets in Tirana. Mr David Gashehi, a private butcher, who earns about 1,000 lek per month, says proudly: "I make twice as much money, but I work three or four times harder."

Despite these concessions to a free market, Albania's cautious reforms have ignored the deep structural problems in the economy.

Mr Gramoz Pashko, an economist at Tirana's Enver Hoxha University, says Albania needs to overhaul its economy. He cites state protection of heavy industry, which is completely subsidised, as an example of "privilege in excess", and urges a surgical strike to reform the economy.

## Thatcher urges swift action on global warming

By John Hunt, Environment Correspondent, in Geneva

MRS MARGARET THATCHER yesterday urged swift action to draw up an international convention to combat global warming.

Her views were echoed by her French counterpart, Mr Michel Rocard, who said: "The time for words is over. It is now time for action, because we are in a race against time. Our task is none other than saving our planet."

The British prime minister, speaking at the opening of the ministerial meeting of the World Climate Conference in Geneva, conceded that climate change might be less severe than forecast. Equally, it might occur more quickly than present computer models suggested.

"Should this happen it would be doubly disastrous were we to shirk the challenge now," she said.

Mrs Thatcher was speaking to environment ministers and some heads of state from 140 countries. The conference aims to begin work on a global climate convention to be completed by 1992.

Mrs Thatcher's speech was greeted enthusiastically by environmental groups, who said it offered nothing new.

She was cautious about the accuracy of the scientific knowledge indicating the scale of the threat, but said: "The need for more research should not be an excuse for delaying much-needed action. There is already a clear case for precautionary action at an international level."

She saw it as a global insurance policy: "It may be cheaper or more cost-effective to take action now than to wait and find we have to pay much more later."

Last night the US was still refusing to declare targets for reducing its emissions of carbon dioxide, the main greenhouse gas. The US and the Soviet Union are among the



WORLD CLIMATE CONFERENCE

few industrialised nations which have declined to give such commitments.

Dr Mustafa Tolba, director of the United Nations Environment Programme, which arranged the conference, has held talks with the US delegation and is optimistic the US will eventually shift its position and announce targets.

Professor Yuri Izrael, head of the Soviet delegation, made no mention of his country being prepared to adopt targets for reduction of greenhouse gases when he addressed the conference. He emphasised the doubt and uncertainty of climate change and said more scientific research was needed.

The Republic of China also failed to give any undertakings on targets to reduce greenhouse gases.

A group of 30 small island nations formed a coalition to demand immediate action to reduce the risk of global warming. Low-lying islands, such as the Seychelles and the Maldives, could disappear under rising sea levels if severe climatic change occurred.

Russell's warning, Page 8

## Poles warned unemployment could double

POLAND'S ECONOMY should recover from its current slump next year, but unemployment might double to 2m, the government said yesterday, Reuters reports from Warsaw.

Industrial output should grow by 5.5 per cent in 1991 after falling nearly 30 per cent this year, a government spokesman quoted Mr Jerzy Olszynycki, Planning Minister, as telling a cabinet meeting on Monday.

Austerity measures introduced last January to halt inflation and move the country towards a market economy have slashed real incomes by a third and put a million people, or 7.5 per cent of the work force, out of work.

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## EUROPEAN NEWS

## Brundtland swings Norway back towards EC

By Robert Taylor in Stockholm

NORWAY'S new minority Labour government yesterday proposed a reversal of the European policy which led to the downfall of the previous centre-right coalition.

Mrs Gro Harlem Brundtland, the prime minister, told parliament that Norway was prepared to abandon its so-called concessionary laws - which protect property, industrial and financial companies from foreign ownership - in talks between the European Free Trade Association and the European Community on the creation of a European Economic Area.

Mrs Brundtland told MPs the Norwegian government would not make negotiating demands that were incompatible with the principles of the EEA.

Her words suggest a much more positive attitude towards the EC than that expressed by the previous government, which was forced to resign last week when the small Centre party insisted on keeping the concessionary laws. The argument within the coalition was a serious obstacle to progress in the EC-EFTA negotiations that resume in Brussels on November 30.

Mrs Brundtland's Labour party can be expected to secure a majority in parliament with the help of the opposition Conservatives and right-wing Progress party over its negotiating stance, even if this is rejected by the small Centre party, the Christian People's party and the Socialist Left.

The Labour government hopes agreement can be reached on the creation of the EEA by next spring and, because of internal differences, still does not want to take a position on Norwegian membership of the EC until 1992.

The Prime Minister, unveiling her government's programme, said the state budget would be increased to help create 30,000 jobs. Norway has 150,000 unemployed, about 4 per cent of the workforce. There will be higher taxes for those earning over Nkr200,000 (£17,400) a year and a rise in public spending.

The new government also promised to introduce a reform to extend parental leave for child care from six to 12 months.

## Reformers place their bets in Dublin's grandstand finish

By Kieran Cooke in Dublin

BACK in 1988, there was a referendum in Ireland on whether or not to legalise divorce. The vote was seen as a battle between the old and new between those who wanted reforms and those who cherished the status quo.

The reformers lost. Ireland sat back, twiddled its thumbs and watched the world and its modern ideas go by.

Today Ireland goes to the polls to choose a new president. For many, it is a re-run of events four years ago.

There are three candidates in today's election. Mr Brian Lenihan is backed by Fianna Fail, the party which has dominated political life since the founding of the Irish state. Mr Austin Currie is the candidate of the main opposition Fine Gael party, while Mrs Mary Robinson has the backing of the Labour Party and the Workers Party.

Latest opinion polls rule out the chances of Mr Currie who, coming from Northern Ireland, is considered an outsider by many of the Republic's voters.

But the race between Mr Lenihan and Mrs Robinson is developing into a grandstand finish. Dublin's bookies are doing a roaring trade taking bets on the outcome. Both candidates appear to have an equal level of popular support.

Mr Lenihan, 50, is one of Ireland's most experienced politicians. A Fianna Fail loyalist who has been in political cahoots with Mr Charles Haughey, the Irish Prime Minister, for more than 30 years. An affable, easy going man famous for his "no problem" catchphrase, Mr Lenihan is seen by many to typify the old political order - an order based on patronage and "stroke politics".

Until 10 days ago Mr Lenihan seemed assured of the

presidency, a reward for his long years of political service.

But then came a series of events which not only severely damaged Mr Lenihan's presidential chances but also threatened the very survival of Mr Haughey's government.

Mr Lenihan became embroiled in accusations that he had made calls to the Irish president some years ago in an effort to win political advantages for Fianna Fail. Mr Lenihan, according to one Irish editorial writer, "is enmeshed in a set of attitudes and values which ought to be consigned to history". Within Fianna Fail there is simmering resentment at the way Mr Haughey sacrificed one of his most trusted lieutenants.

In recent days the Fianna Fail party machine has rallied behind Mr Lenihan. Mr Lenihan, who underwent a liver transplant last year, has been portrayed as the victim rather than the cause of recent events. It's likely he will win a significant sympathy vote.

Mrs Robinson, 46, has been the surprise of this election campaign. A woman has to fight hard to gain entry into the patriarchal world of Irish politics.

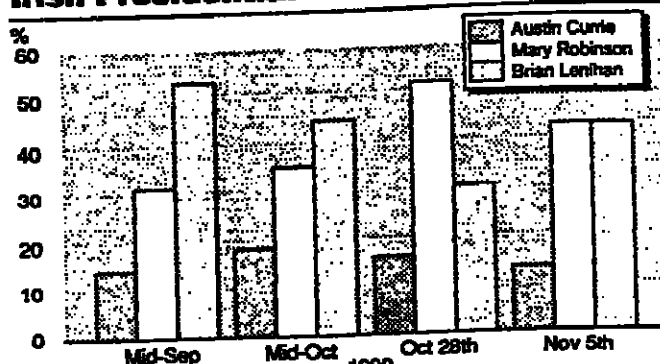
In a lengthy campaign Mrs Robinson, a barrister of considerable experience, has tilted at

many of the shibboleths of Irish society, arguing for divorce laws, for contraceptive devices to be made freely available and for women's rights. While Mr Lenihan's travails have undoubtedly helped Mrs Robinson, her liberal message has struck a responsive chord, not just among the Dublin middle classes but in many other areas as well. "Ireland is changing, only Fianna Fail don't realise it," says Mrs Robinson.

Mrs Robinson's opponents insist she is representative of only a small portion of the Irish electorate. She has been accused of wanting to litter Ireland with abortion clinics, of only having a passing interest in her family, of not being a good Roman Catholic, of encouraging homosexuality.

In conservative Ireland, such charges can cost votes. But Fianna Fail attempts to paint Mrs Robinson as a dangerous

## Irish Presidential election polls



left wing seem to have had little effect.

The Irish presidency is largely a ceremonial post, with few constitutional powers. A president cannot even leave the country without the permission of the Government. In the past presidents have tended to confine themselves to shaking hands and cutting ribbons, keeping well away from political controversy.

There are many who feel that Mrs Robinson is politically naive and would be too confrontational as president. Conflicts would quickly arise with

government. Constitutional crisis would occur.

Just by being elected today Mrs Robinson could cause a crisis. Mr Lenihan's defeat would be seen as an ignominy and to the career of one of Ireland's best loved political characters. It would call into question Mr Haughey's conduct over the past few weeks. Under Ireland's transferable vote system the outcome of today's election is unlikely to be known for 48 hours. It will be a tense time for the two protagonists - and for Mr Haughey.



Mary Robinson: surprise of the election campaign



Brian Lenihan: likely to win sympathy votes



Austin Currie: considered to be an outsider

## Frustrated Slovaks think about divorce

By Leslie Collitt, recently in Bratislava

SLOVAK nationalism, suppressed but never stifled under communism, is threatening to tear democratic Czechoslovakia apart.

President Vaclav Havel was confronted with the separatist demands of the Slovak National Party (SNP) at every turn during a tense visit to Slovakia last week and he will need to draw on all his considerable moral authority if a break with the Czechs is to be averted.

The Czech president listened intently to complaints about Czech domination from a group of young supporters of the SNP, which gained 13.9 per cent in Slovakia in parliamentary elections last June. He assured them that Slovakia would gain full rights under the planned new constitution next year for the Czech and the Czechoslovak federation.

Afterwards, several demonstrators spoke of Mr Havel as one of the few Czech politicians who could be trusted. "For years we were simply abbreviated into Czech," said a middle-aged Slovak engineer bitterly.

Such "abbreviation" goes to the heart of pent-up frustrations among the nearly 5m Slovaks, outnumbered three to one by Czechs. "Czechoslovakism" is an epithet in Slovakia for Prague centralism and economic domination of the 71-year-old Czechoslovak state.

Escalating demands for Slovak independence are worrying more moderate politicians in Slovakia. Mr Jan Cernogorsky, first deputy prime minister of Slovakia and head of the Christian Democratic Party, warned at the weekend that "sudden independence" was not possible and was against Slovakia's interest.

However, in a bid to prevent

large SNP gains in local elections on November 24, he insisted that a new Slovak constitution allow the Slovaks to "leave the federation if their ideas and requirements are not fulfilled."

Mr Vitazoslav Moric, the highly-strung 44-year-old engineer who heads the SNP, is a controversial figure even within the party, where he is criticised for being a political amateur. His most serious rival, Mr Stanislav Panis, is, however, regarded as even more radical.

The SNP has adopted a chauvinistic line towards its own minority in Slovakia - the nearly 600,000 Hungarians. Thousands of SNP supporters protested outside parliament in Bratislava recently against a law which, while making Slovak the official language, gave minorities in certain districts the right to use their language in official contacts.

A badge worn by Mr Moric with the portrait of Fr Andrej Hlinka is a vivid reminder of Slovakia's only previous referendum with independence. Fr Hlinka was a Catholic priest who paved the way for Slovakia's fateful split with Prague in 1939. Although Mr Moric referred to Hlinka as the "father of our nation", he was quick to dissociate the SNP from the clerical-fascist government under Fr Jozef Tiso who ruled Slovakia with Hitler's blessing until 1945.

Mr Moric also dismissed arguments that Slovakia, with its mixture of rural backwardness and enormous armaments factories, would suffer economically from a break with Prague. However, a delegation of German industrialists warned its Czechoslovak hosts last week that the economy could not flourish if national borders were erected.

## Genscher calls for EC ties with North America

MR Hans-Dietrich Genscher, German foreign minister yesterday called for an accord fixing regular, high-level consultations between the European Community (EC) and the United States and Canada. Reuter reports from Gutersloh, Germany.

Mr Genscher said he would like such a pact to be signed this year by the EC and the two North American Nato military alliance partners.

"Relations between Germany and America are now entering a new phase," Mr Genscher said.

"Europe's growing together

must and will not make the Atlantic wider. On the contrary, we will move closer together."

Mr Genscher said he wanted a transatlantic agreement to set meetings twice yearly between a US president and an EC Council chairman, a post held in rotation by heads of the 12 member governments.

It should institutionalise contacts between the EC Commission and US government and provide for regular foreign ministers' talks.

Mr Genscher said the US must remain an integral part of Nato.

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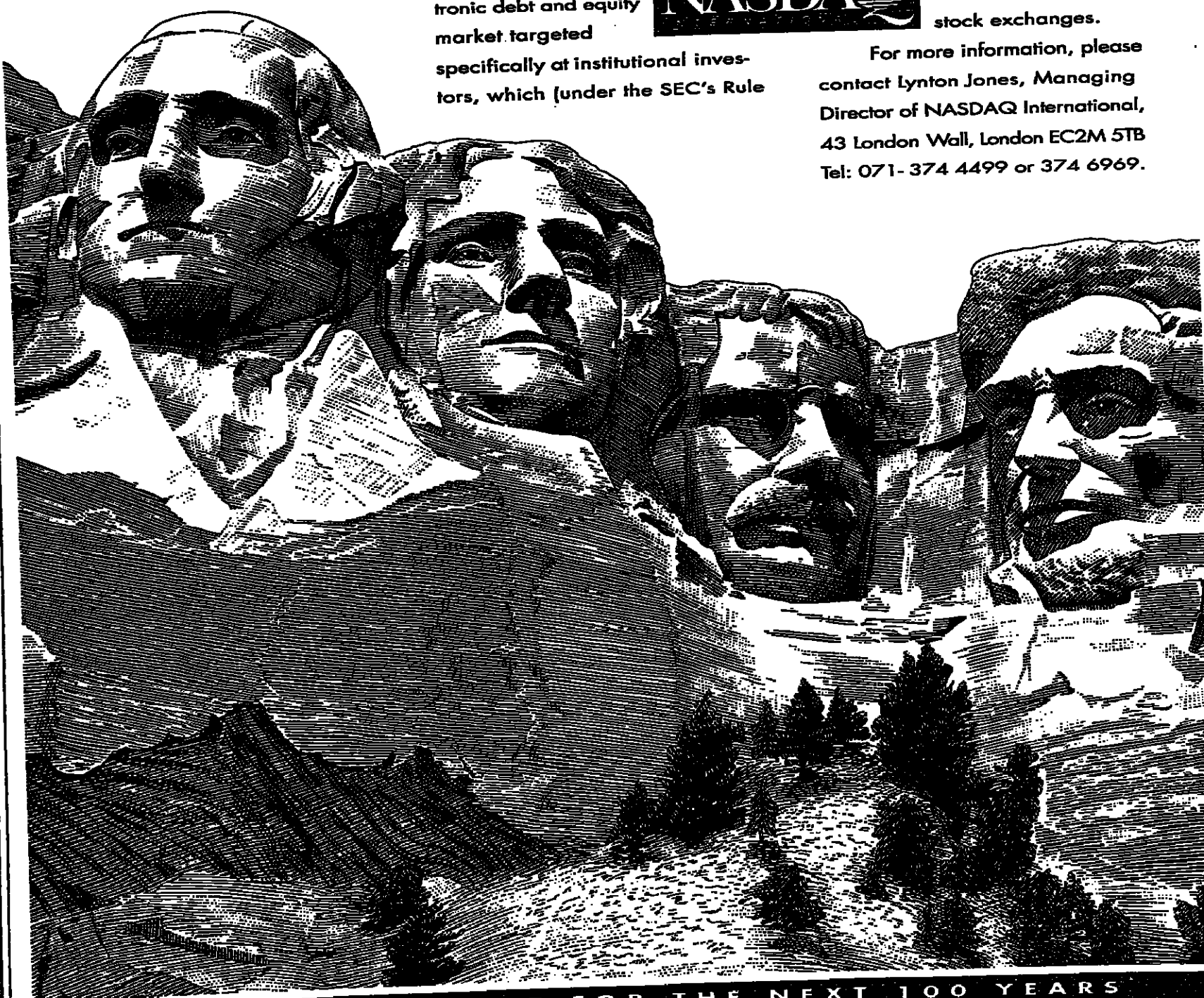
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## WORLD TRADE NEWS

## US, Thailand fail to agree on air traffic

By Paul Taylor, Asia Business Correspondent, in Bangkok

US and Thai negotiators have failed to reach agreement on another important bilateral accord, this time covering air traffic between the two countries.

This follows last week's failure to reach a new textile quota accord. With the recent dispute over US cigarette imports and the threat of US trade sanctions on copyright infringement, it highlights the growing trade friction between the two countries.

Both the air traffic and textile quota talks broke down, with negotiating teams accusing each other of sabotaging the agreements.

A third and final round of talks on a new air traffic pact

broke down in Washington at the end of last week, with Thailand insisting a wholly new agreement be reached, while US negotiators sought to amend the existing one which has been in force for 11 years.

The Thai delegation, led by Mr Mahidol Chandrakul, deputy permanent secretary to the transport and communications ministry, blamed the failure on a US refusal to negotiate a completely new agreement while US negotiators insisted they had made compromises and accused the Thais of being intransigent.

At the centre of the dispute have been Thailand's attempts to restrict so-called "fifth freedom" routes under which US

carriers have been able to capitalise on rapid growth of air travel in north-east Asia by picking up passengers en route to Thailand from Tokyo, Seoul and Taipei.

US negotiators have insisted on keeping the "open skies" clause in the old agreement, whereby US carriers can boost passenger flights to Thailand without prior approval.

The old air traffic agreement expired at the weekend, but air traffic between the two countries will continue on a temporary basis until April.

During this time, US airlines will be allowed to operate 31 passenger and seven cargo flights to Thailand each week with Thai Airways having

equal landing rights. What happens after April is still unclear. If there is no eventual agreement, US airlines stand to suffer most, with possible losses running to 7.5bn baht (\$151.5m) a year, while Thai Airways is likely to benefit, at least in the short term, by switching aircraft on to these routes.

Mr Viroj Amatakulchai, president of the Thai Garment Manufacturers' Association, has accused the US of insincerity leading to failure to reach another bilateral trade pact covering Thai textile export quotas to the US. He claimed that the US failed to send a full negotiating team to talks in Geneva last week.

## Hitachi set for Europe plant deal

THE INFORMATION systems division of Hitachi, the Japanese electronics company, is close to finalising plans for its first European equipment factory, William Dawkins reports from Brussels.

The plant is expected to require a FF1.1bn (£101.5m) investment near Orleans, local officials say. Hitachi is declining further comment until Mr Yasuhiko Tani, president of its information systems group, announces the deal in Paris tomorrow.

This will be especially welcome in France, after the disappointment of being considered for Hitachi's last big European investment, an integrated semiconductor fabrication plant, only to see it go to west Germany. It also marks an important step in a trend by big Japanese companies to build up European production, in response to the European Commission's former aggressive use of anti-dumping regulations.

Hitachi began building its DM350m (£119m) integrated semiconductor plant in Landshut last June, and was due to start production there from spring 1992. The German project is a response to a Brussels ruling that semiconductors must be fully made in the EC if they are to be exempt from anti-dumping actions.

## Commission to propose EC export reinsurance pool

By David Buchan in Brussels

THE European Commission is expected today formally to propose to EC governments the setting-up of a common reinsurance pool to underwrite major EC contracts in eastern Europe.

The proposal, extending EC competence for the first time to the national preserve of export credit, would apply to credit insurance contracts of more than two years to eastern Europe, and require the official agency in each member state to place 40 per cent of these risks in a common reinsurance pool. The jointly-managed pool would have procedures for vetting risks to take on. Profits and losses would be shared by member agencies according to how much reinsurance busi-

ness they put into the pool. The pool proposal would cover contracts with six east European countries: Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. The commission is today finalising guidelines for the "Europe Agreements" which it plans to negotiate with east European states, to establish free trade with these countries over 10 years.

Attempts by the Commission to spread EC writ into the export credit field have been resisted, especially by larger member states which see credit terms as a key element in their national economic diplomacy. At their summit on eastern Europe in April, EC leaders asked the commission to sug-

gest ways of encouraging investment and capital transfers, specifically citing reinsurance.

Belgium has pressed hard for some EC action. "The smaller the country, the less it can spread its risks," one Belgian official said yesterday, adding that Belgium had vainly wanted a reinsurance window at the new European Bank for Reconstruction and Development (EBRD). "We are not that exposed in eastern Europe, but we see risks there as high."

Commission officials say the reinsurance pool would merely be a form of increased co-operation between national credit agencies, leading to a single export credit insurance market.

## Call to reopen bidding for container terminal

By Paul Taylor, Asia Business Correspondent

ANOTHER major Thailand infrastructure project contract, the selection of the private sector operators for two of the four planned container terminals at the Laem Chabang deep sea port, appears to be heading into controversy.

One of the unsuccessful bidders for the contract, the Metro group comprising Thai-based Metro Machinery and Furnish Withy Terminals of the UK, has demanded the reopening of the bidding process because it claims it was unfairly excluded

from the tender to operate the terminals.

The Thai/British consortium was excluded from the final selection even though it had offered the best profit return to the Port Authority of Thailand (PAT) because the Authority said its estimates were based on the group winning Board of investment privileges and that, as a government agency, PAT could not get involved in applications to the Bol.

The Metro group, one of five consortia which submitted bids

for the operating contract at the end of August, had offered the PAT \$2.1 per cent of its profits if it won Bol privileges and a 40 per cent share if it did not. But the Authority rejected Metro's bid, choosing Ngow Hock and Thai Cranes to enter the final bidding round, even though their bids were less favourable than Metro's.

Ngow Hock and Thai Cranes, both consortia including Thai and Japanese partners, had offered the PAT a 32.5 per cent profit share and a 31 per cent

share respectively. Neither bid assumed Bol privileges.

Now, however, the Metro group is asking the PAT to reopen the tender and ask the other contenders to produce bids with and without Bol privileges as well.

The four container terminals, two of which will be operated by the PAT itself under an agreement reached earlier with its labour unions, are being built to ease the infamous congestion at Bangkok Port in Klang Toey.

## Hills in farm plea to EC leaders

By William Dufforce in Geneva

MRS Carla Hills, US Trade Representative, yesterday called on the leaders of France, Germany, Italy and the UK to ensure that crucial farm issues are negotiated in the Uruguay Round trade talks.

If they failed to do so, they would destroy the four-year exercise in international trade liberalisation, she warned. Mrs

Hills spoke to the Financial Times as European Community leaders gathered in Geneva for the final thrashing out of agreement in Brussels on proposals to table at the Uruguay Round talks.

She declined to prejudge the EC proposal but warned that EC negotiators would have to be prepared to deal separately with all three elements of farm reform - cuts in export subsidies, border protection and internal farm supports.

At the summit meeting of the Group of Seven industrial powers in Houston in July, leaders of France, Germany, Italy and Britain had assured President George Bush they would "stay personally committed" to deal with all three farm reform factors, Mrs Hills said.

It was time for the EC leaders to stand up and meet the commitment they had given in Houston, Mrs Hills said. On Monday the Cairns Group of 14 farm-exporting nations, led by Australia, gave the EC 10 days in which to engage in serious negotiations on farm reform. Cairns Group

ministers would re-assess their attitude to the Uruguay Round on November 15.

If some countries in the Cairns Group decided to walk away from the Round, the US would not be in a position to meet its own objectives in the trade talks and the US administration would not be able to satisfy its domestic support for its policy in the Round, Mrs Hills said.

Meanwhile, Mr Hugo Paemen, EC chief negotiator, said yesterday that the European Community continued to have "high ambitions" for the outcome of the Uruguay Round trade talks. Speaking as the Brussels talks inched to an agreement on proposed farm subsidy cuts, Mr Paemen claimed that nearly all the 14 other issues under negotiation were also running behind schedule.

The EC Commission would work hard over the next few weeks for successful substantial results in the Round. It did not want to postpone the concluding meeting of world trade ministers in Brussels in December.

## Currency undercuts Argentine exports

Business is blaming Buenos Aires, reports John Barham

ARGENTINA has one of the world's most surging economies. Its currency, the austral, has more than tripled in real value in a year, during which time the country has been hit by two bouts of hyperinflation.

In the past 12 months prices have risen by 1,838 per cent, while the austral has depreciated by "only" 488 per cent. That means companies' production costs have risen by 229 per cent in dollar terms.

Predictably, exporters, particularly of industrial goods, are complaining bitterly. Mr Arnaldo Musich, director of Siderca SAIC, a steel company and Argentina's third largest exporter, said: "It's difficult to remain in markets overwhelmed by competing companies. We do it by long-term planning, but at the moment we are seriously damaged."

Siderca, which exported goods worth \$279m (£143.5m) in 1989, is barely breaking even on its exports. Renault Argentina, the country's leading exporter of cars and components, says its profit margin on exports has crashed. Even Argentina's profitable farm exports are feeling the pinch, both from the rising austral and falling prices caused by US and European Community agricultural subsidies.

Companies are struggling to maintain their exports and avoid losing markets they have fought hard to win. Many are surviving by evading taxes and drawing on offshore hard currency deposits fattened by years of heavy profits. This further strengthens the austral.

Economists give several reasons for the rising exchange rate. The central bank has imposed high real interest to stifle inflation, while the government's demand for hard currency has dwindled because it only services part of the \$60bn foreign debt.

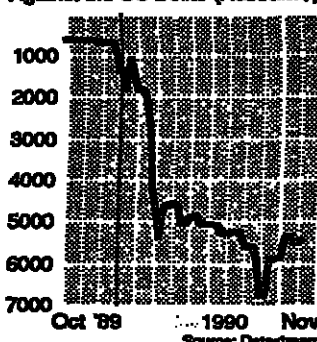
Furthermore, recession has choked off demand for imports. The first-half trade surplus was \$4.1bn, two-thirds more than in the same period last year. Imports dwindled by 20 per cent to just \$1.76bn while exports, largely composed of grains, rose by 25 per cent to \$5.87bn.

However, economists say the exchange rate is only part of the problem. Fundación Mediterránea, an independent think-tank, said the former weak exchange rate made companies uncompetitive. It warned: "As long as a free exchange rate is in force, production of internationally traded goods will require more than ever, a permanent review of costs."

Businessmen agree, but tend to shift the blame to the gov-

## Argentine Austral

Against the US Dollar (Austral/\$)



ernment. Mr Leonardo Fisman, Renault's export manager, said: "The main difficulties are a lack of continuity, erratic economic cycles and very expensive inputs."

He added that constantly shifting government policies made planning impossible. For instance, the government "owes" Renault \$30m, a third of its forecast 1990 exports, in unpaid incentives.

Businessmen often complain that government utilities have imposed huge price increases. In fact real prices are slightly lower than five years ago. However, like the exchange rate, real prices were lowered slowly over years and now the government has jacked them up quickly, upsetting cost structures. Companies also complain the government is taking too long to reorganise itself and deregulate the economy, which slows down their own adjustment.

Mr Musich said: "The private sector cannot continue adjusting if the government does not intensify its own adjustment." But the private sector is far from efficient. Costs, with the notable exception of food products, have always tended to be higher than in countries Argentina competes with.

A protected domestic market allowed companies to shield profit margins by reducing output and raising prices whenever demand fell. As the domestic market crumbles, manufacturers are losing economies of scale. Argentina expects to produce just 85,000 cars this year while a decade ago it built 300,000 cars.

Companies and trade unions are pressuring the government to ease its strict monetary policy or establish a fixed exchange rate.

The government refuses to budge, which means the austral will continue to revalue for the foreseeable future. Executives wonder if it will cling as grimly to orthodoxy when companies go bankrupt and exports start dwindling. Inflation slows, Page 6

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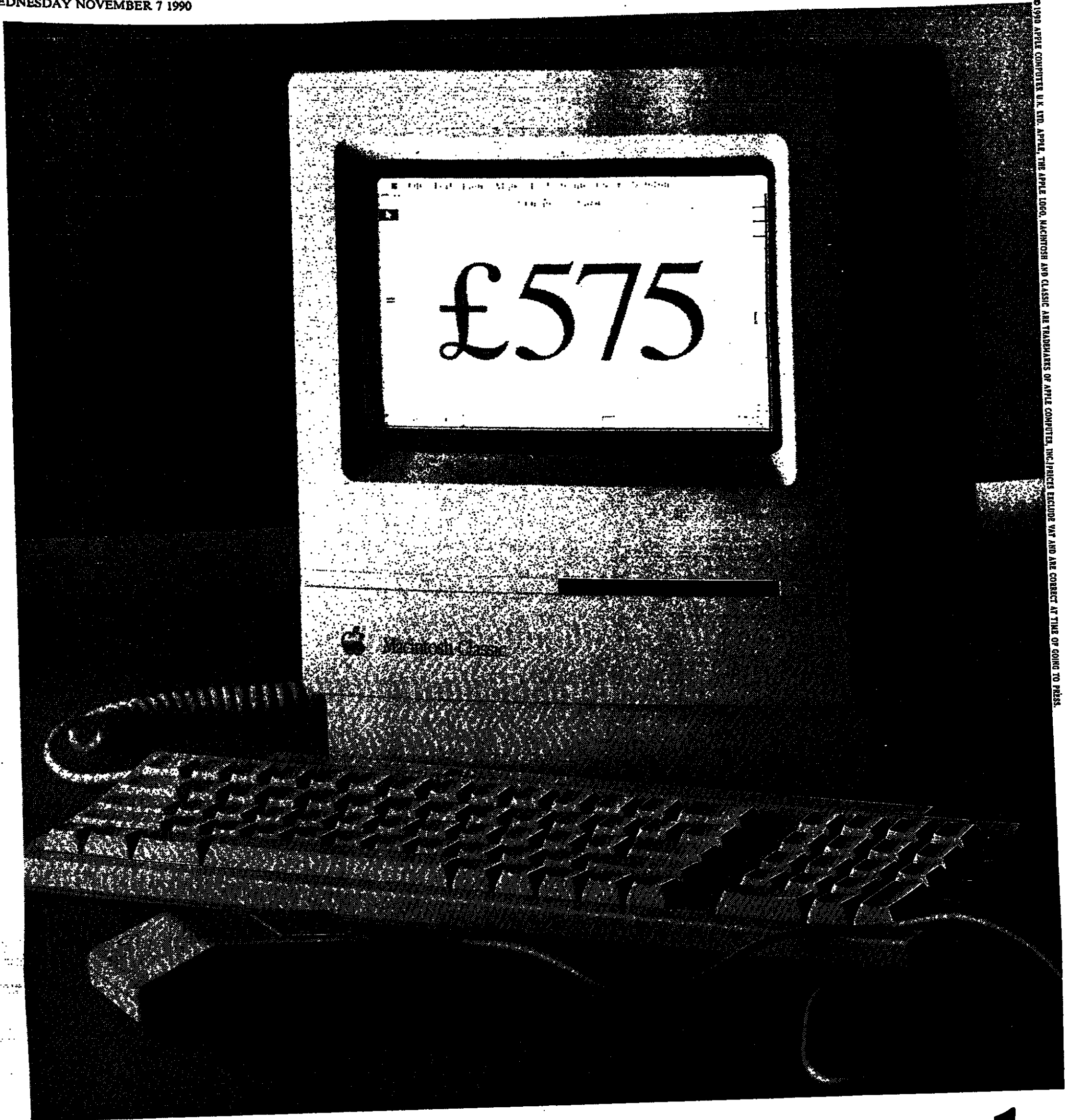
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AMERICAN NEWS

# Legal obstacles hit Brazil's sell-off agenda

BRAZIL'S ambitious privatisation programme has hit a series of technical and legal hurdles, which are likely to push back the first privatisation, Christina Lamb writes from Rio de Janeiro.

An ambitious plan to raise \$7bn (\$3.5bn) this year has also been stalled to a more modest \$420m, through the sale of privatisation certificates (CPs) to financial institutions.

When Mr Eduardo Modiano, head of the privatisation commission, first took on the task of dismantling Brazil's unwieldy state sector, he pledged he would be out of a job if he failed to sell six state companies this year. But selling off billion dollar companies requires more than good intentions.

Mr Ricardo Figueiro, Mr Modiano's chief assistant, said yesterday he expected Companhia Siderurgica de Tubarao (CST), Brazil's fourth largest

steel producer, to be the first company to be privatised. Names of the two firms to bid successfully for tenders to audit the company and to manage the sale will be announced on Friday. Those bidding include Coopers & Lybrand (International) and Boos-Allen & Hamilton.

The decision to launch the programme with CST shows the commission has avoided the safer option. Initially it had intended to begin by selling Copene, a small petrochemical company in which the government has only a 49 per cent stake.

Mr Figueiro said he expected CST to be ready for sale by early March. The commission intended to sell off next year all 11 companies approved for privatisation by President Fernando Collor de Mello in August, he added. These are all in the steel, petrochemical and fertiliser sectors.

But there are several problems ahead, not least of which is who receives the receipts from sales. Petrobras, the state oil company, believes that as majority shareholder in Petroquímica and Petrofertil, holding companies for the petrochemical and fertiliser complexes to be sold, it should receive the money rather than the Treasury.

A group of minority shareholders in the petrochemical sector are to go to court in an attempt to block the sale.

In the steel sector, too, privatisations could be blocked. The companies were formerly controlled by Siderbrás, a state holding company which was extinguished by presidential decree in March with debts of \$12bn. Foreign creditors could insist that receipts go to them.

Sales of CPs have been suspended because of the delay. The government's

attempt to force banks and pension funds to buy \$5bn in certificates to "compensate for past profits under hyperinflation" created tremendous hostility.

Pension funds won an injunction against the compulsory purchase and the government was forced to agree that sales to banks would stop if the first sale had not been held by last month. Mr Figueiro said, however, "we still expect to raise \$3bn eventually through CP sales".

A further problem could arise from state governors elected in polls later this month, who may decide to oppose privatisations of big employers in their states. Mr Figueiro said the commission was ready for opposition through interest groups, industrialists used to buying subsidised products, state governments and labour unions but "we're committed to the process".

## Argentina begins to rein in inflation

By John Barham in Buenos Aires

PRESIDENT Carlos Menem's tough economic adjustment policies have begun to bear fruit, with Argentina's monthly inflation rate declining to single figures for the first time since November 1989.

The consumer price index rose 7.7 per cent in October, bringing inflation over the previous 12 months to 1,838 per cent. Argentina has suffered two outbreaks of hyperinflation in the last year.

The declining inflation rate is a triumph for the government's hardline monetarist policies, adopted in September. However, price stability is causing a severe recession and a marked increase in the value of the austral, Argentina's currency.

## Congress expected to revive several bills in new year

By Peter Riddell, US Editor, in Washington

SEVERAL bills with far-reaching effects on business which died in the US Congress adjourned last week are expected to be revived next year.

The new Congress, which starts in January, will also consider changes in the structure and regulation of the banking industry, and possibly also protectionist trade and investment measures if the Uruguay Round trade liberalisation talks fail.

The main achievements of the 101st Congress in the business area, excluding the measures in the deficit reduction bill, were:

- Anti-trust violations. An increase from \$1m to \$10m per count in the maximum fine on corporations - and for individuals from \$50,000 to \$250,000 per count - for criminal violations of the Sherman Act, such as price-fixing and bid-rigging. Also introduction of powers to permit the federal government to recover treble damages for offences, whereby the government could sue a buyer or seller who suffers damage from an anti-trust violation.

# Hard landing looms for high-flying industry

## Christina Lamb sees falling sales and high interest rates deflating business prospects

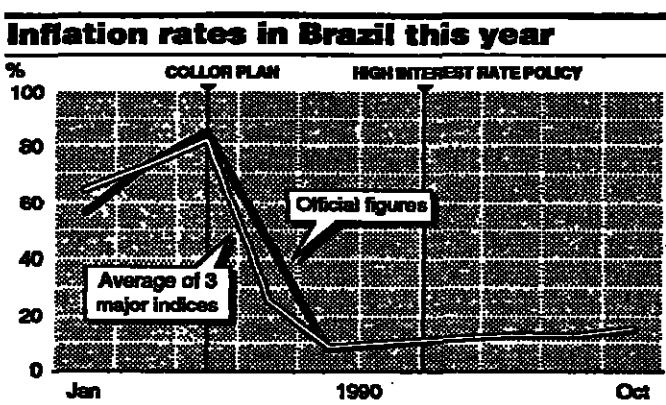
CAUGHT between falling sales and high interest rates, resulting from the government's tight monetary policy, many Brazilian businesses are facing bankruptcy.

Mr Carlos Langoni, professor at the Getulio Vargas Foundation, says "at the moment we are facing all of the costs [of President Fernando Collor de Mello's economic plan] with so far none of the good results".

The situation has provoked the most bitter war of words between government and business since the latter's support brought Mr Collor to office in March. The government is unrelenting in its high interest rate policy which since July has been its major weapon in the fight against inflation. It insists it is up to companies to reduce profit margins and put back in what they took out over the last 10 years of hyperinflation and protectionism, when the private sector thrived at the expense of the state.

In a speech last week Mr Collor made it clear that the plan of business would find little sympathy: "Society and the government cannot compromise with businessmen who want capitalism without competition... those businesses which do not attend to the need to reduce costs and profits will fail."

The idea that Brazilian industry will emerge much fit-



ter is fine in theory. But businessmen argue it is unrealistic to expect anyone to survive with real interest rates of 10 per cent a month. Mr Mario Amato, president of FIESP, the Federation of Industries in São Paulo, says "we are being asked to run a marathon at sprint speed. If we don't get an injection of oxygen we will collapse".

Ferocious high inflation means companies must continue to increase wages. But they can no longer pass the added costs along to customers because trade liberalisation requires that they keep prices competitive. High interest rates mean there is little credit available for modernisation, even if companies could afford it.

Mr Ricardo Semler, who was

last week elected leading businessman of the year, questioned the government's credibility, given its failure to reduce inflation below 14 per cent a month. "Where is the one digit inflation?" The slumped down state machinery? The modern government? The violence of this plan can only be justified through results as spectacular as the arbitrary methods used to achieve them."

At first sight the statistics supporting the case of business are startling. In São Paulo last month 256 companies went bankrupt and 31 went into concordata (similar to seeking protection under Chapter 11 in the US). This compares with a national average last year when the recession had already started - of just seven

per month.

These businesses in trouble include household names such as Embraer, the country's successful aircraft manufacturer, and Pao de Açúcar, Brazil's biggest private sector group.

Industrial activity is predicted by FIESP to be 8.5 per cent down this year while retail sales are 20 per cent down. Exports offer little relief, as Brazil's main market, the US, is also in recession and the government's policy of maintaining an overvalued cruzeiro is pricing Brazilian goods out of international markets.

This was highlighted by the latest statistics, which showed that the trade surplus dropped in September by a third compared to August and to last year's figure.

The government argues that business is just not prepared to reduce profit margins. Brazil's top 500 companies last year enjoyed record profits, largely due to financial speculation and an economy characterised by cartels.

But the government's case is weakened by the fact that inflation has been steadily increasing, though this is partly due to poor harvests and the Gulf crisis. Mr Ibrahim Eris, governor of the central bank, has predicted that this month's inflation would be 19 per cent.

Mr Luis Eduardo de Assis, head of monetary policy at the central bank, blames both busi-

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Italy I.Li.	01/51.29005	4000	2400	2200	1200
Japan Y.	---	5000	2800	2000	1500
Netherlands F.	052/212257	15	118	85	47
Norway (incl.) N.Kr.	09346/8325443	45000	35000	25000	13000
Portugal Esc.	0034/1.5351085	11000	7200	4000	3300
Spain (incl.) Ptas.	91/5551085	600	492	340	185
Sweden (incl.) S.Kr.	08/8325443	2500	1368	1400	770
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West Germany D.M.	---	35000	22000	20000	11000
West Germany D.M.	---	51480	---	25740	12870
West Germany D.M.	---	2200	1440	1210	665
West Germany D.M.	---	2800	840	1540	850
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## Chamorro faces revolt by Contras

By Tim Coone in Managua

CONFRONTATION is looming between about 5,000 former Contra rebels in Nicaragua and the government of President Violeta Barrios de Chamorro.

Disillusioned over unfulfilled government promises of land and credit and a recent economic pact between the government and Sandinista-controlled trade unions, the rebels have taken over long stretches of the Rama highway which links the Pacific and Caribbean coasts of Nicaragua to press their demands.

With the support of local municipal officials, they are calling for the resignation of Mr Antonio Lacayo, minister of the presidency, and Mr Carlos Fariñas, minister of interior. They want the dismissal of General Humberto Ortega as head of the armed forces.

## New York City fights to keep top exchanges

By Tim Coone in New York

NEW YORK CITY will probably remain the site of the world's second-biggest commodities exchange after the Commodity Exchange Centre (CEC) said yesterday it favoured staying in its downtown business district instead of moving to New Jersey, Reuters reports from New York.

New York City was competing with Jersey City, which offered lower taxes, a big financial incentive package and the chance to flee the crime, grime and high costs of conducting business in New York.

But New York also offered a package of financial incentives. Terms were not disclosed.

## Haiti council bars 10 presidential candidates

HAITI'S independent Electoral Council has barred ten of the 26 declared presidential candidates from running for office, AP reports from Port-au-Prince.

Those barred include two former senior officials in the regime of Jean-Claude Duvalier. The 29-year-old dictator fled the country in 1986 when his regime collapsed. Since then Haiti has been wracked by political turmoil.

In a statement released late on Monday night the council said the 10 had failed to comply with filing procedures.

Many Haitians, worried the action could unleash violent retaliation from supporters of the Duvalier dictatorship, caused traffic jams after the announcement as they stocked up on supplies and food.

The army patrolled city streets and no incidents were reported by yesterday morning.

## US car sales buoyant despite recession fears

DESPITE soaring petrol prices and fears of a recession, US consumers are still buying new cars, boosting the country's auto sales by 11.8 per cent in late October, Reuters reports from Detroit.

For all of October, the crucial first full month of sales for new 1991 models, sales were up 9.4 per cent.

Industry analysts were quick to point out that the year-ago period was extremely weak, allowing favourable sales comparisons for the big three US car makers. Truck sales for the last 10 days of October rose 4.3 per cent.

The annual auto selling rate for the period from October 21 to 31 was about 7.1m units, up from 6.37m units last year and in line with the average rate in 1990.

Ford led the group with an increase of 13.3 per cent in the 10-day period, followed by Chrysler with a sales rise of 10.1 per cent. General Motors lagged with an increase of 4.9 per cent.

Japanese companies producing cars in the US had a mixed period, with Honda reporting a surprising 4.6 per cent decline in car sales. Mitsubishi's sales fell 1.1 per cent.

## Journalist held for Endara criticism

A Panamanian newspaper columnist who criticised President Guillermo Endara's connections with a bank under investigation for alleged money laundering has been arrested, the attorney-general's office said, Reuters reports from Panama City.

Mr Dagoberto Franco, who writes for the opposition daily El Siglo newspaper, was detained after a complaint by Mr Endara over a column published on October 31.

The attorney-general's office said the column "attributed criminal acts and values detrimental to [Mr Endara's] reputation, which constitutes crimes of calumny and insult."

Mr Carlos Singares, editor of El Siglo, said the arrest formed part of a government campaign against journalists who wrote about Interbanco, a bank under investigation by Panamanian authorities for alleged money laundering.

Mr Endara was secretary of Interbanco's board until last May. In late October he said the accusations against it were groundless.

Mr Singares said Mr Franco was a brave journalist who only reproduced statements from others, including the US Drug Enforcement Administration.

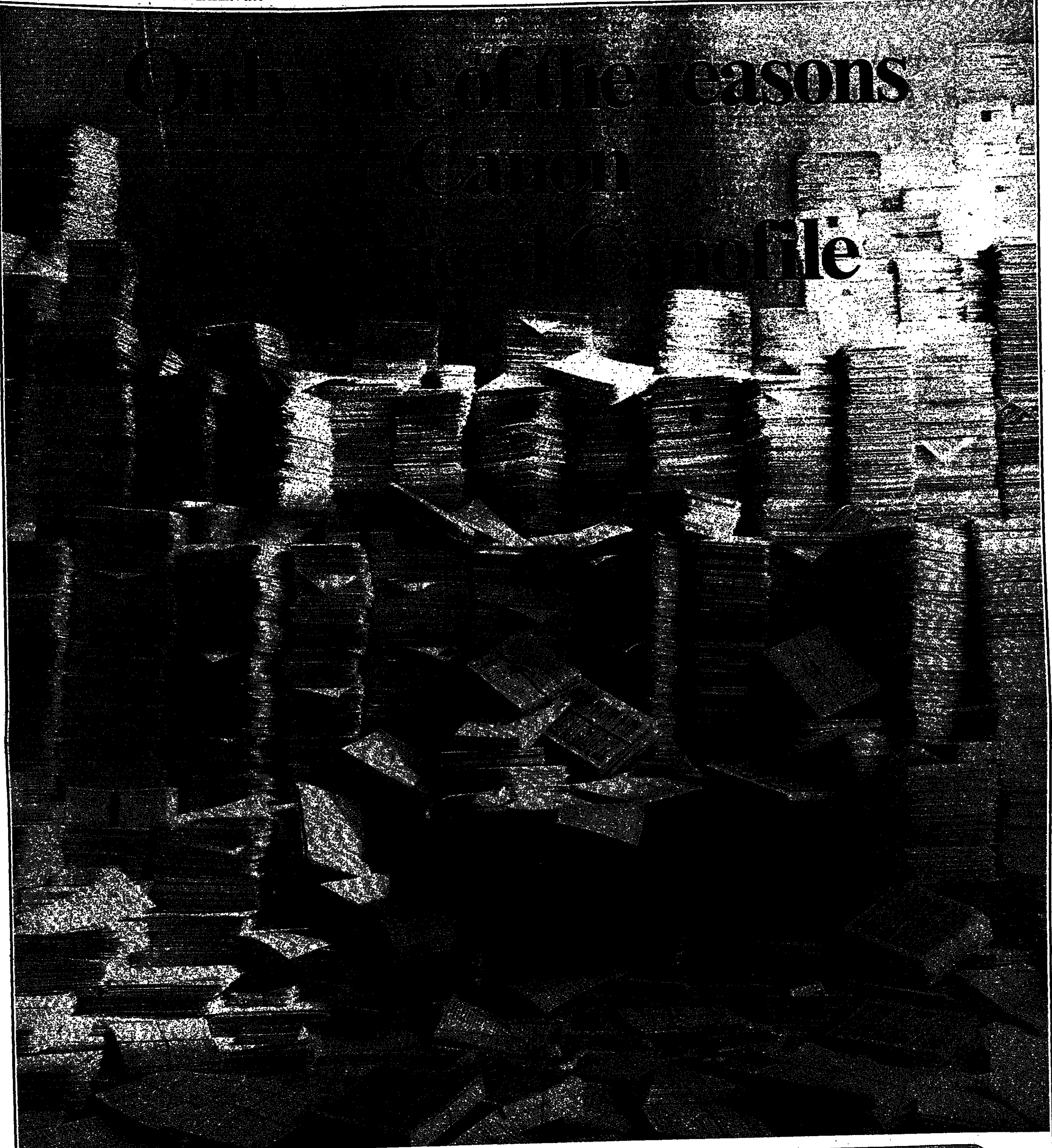
In September Mr Endara asked the attorney-general's office to bring charges against a law professor and prominent government critic who had accused him of taking orders from the US government.



Guillermo Endara: complained over newspaper column



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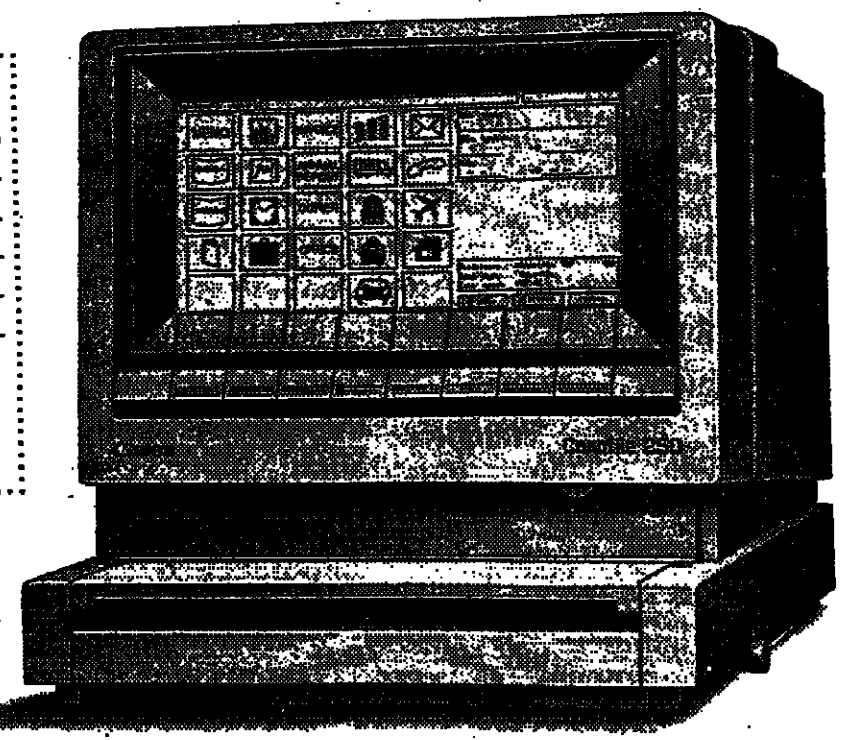
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## INTERNATIONAL NEWS

# More hostages freed as Brandt talks peace

By Lami Andoni in Baghdad and Our Foreign Staff

PRESIDENT Saddam Hussein of Iraq yesterday ordered the release of 106 foreign hostages, including 77 Japanese, as visiting dignitaries continued controversial negotiations in Baghdad to free the remaining captives and to try to resolve the Gulf crisis.

The Iraqi News Agency said Mr Saddam's freedom order also included 20 Italians, five Swedes, two Germans and two Portuguese.

Some 3,000 Westerners and Japanese are still detained in Iraq, many of them as "human shields" at strategic sites. Iraq has been releasing hostages in dribs and drabs in an attempt to divide the international alliance opposing Baghdad following the Iraqi invasion of Kuwait in August.

Western diplomats, noting increased Iraqi flexibility on the issue of hostages, expressed fears yesterday that Iraq will eventually release all nationalities except for the Americans and Britons held at strategic sites.

INA said the 77 Japanese were being allowed to leave because of an appeal by Mr Yasuhiro Nakasone, the former Japanese Prime Minister. He met the Iraqi President for a second time yesterday.

Mr Willy Brandt, the former West German Chancellor who is also in Baghdad, presented Iraqi leaders with unspecified peace proposals yesterday, but it is unclear whether he has a mandate from any government to negotiate a deal.

He met Mr Tariq Aziz, the Iraqi Foreign Minister, and Mr

Yassir Arafat, the leader of the Palestine Liberation Organisation and an ally of Iraq.

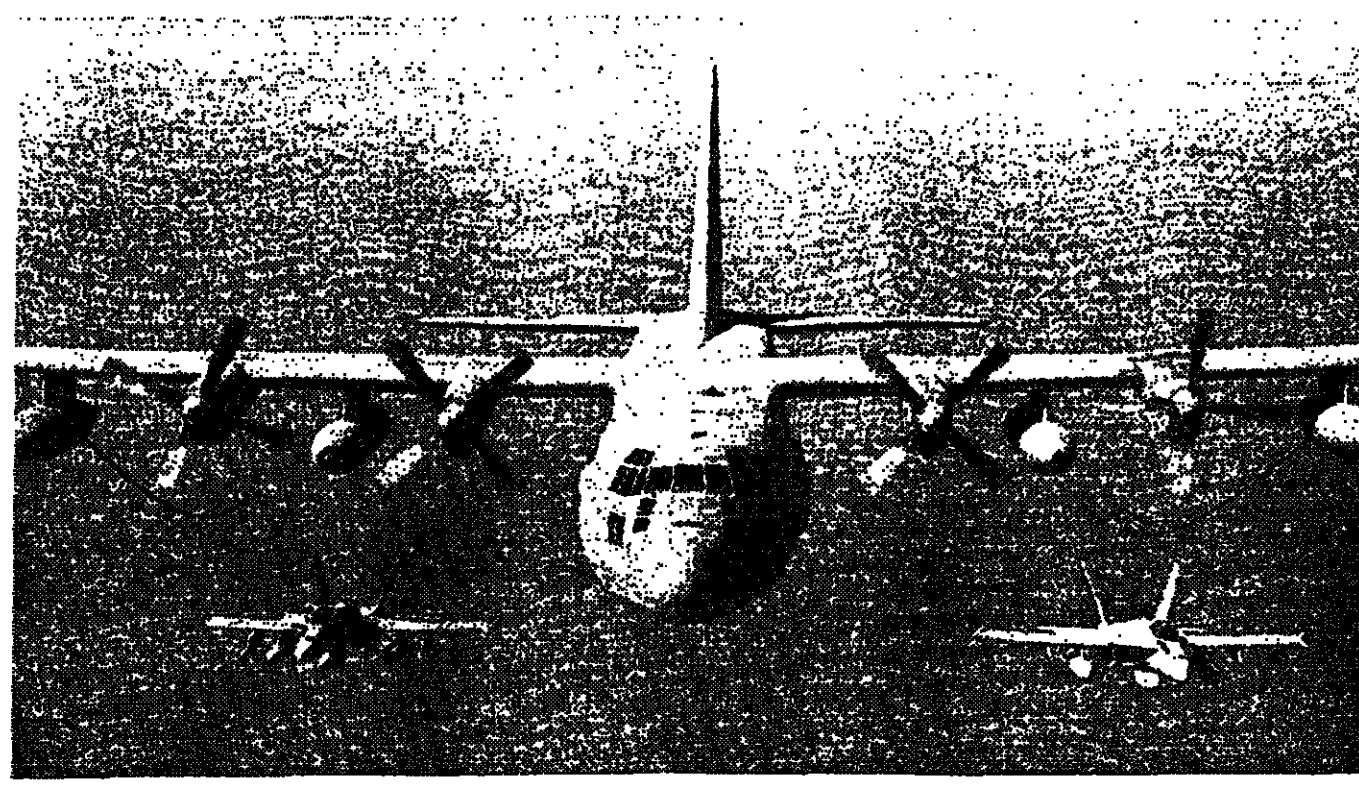
Mr Brandt said a peaceful solution, not the release of hostages, was his main objective, but he did not believe he would leave "empty-handed".

Several countries, including Britain, have criticised Mr Brandt and other visitors for entering into negotiations with Iraq before a complete withdrawal of Iraqi forces from Kuwait.

In Rome, the 24 nations of the Council of Europe implicitly criticised private missions to Baghdad by declaring that united action was the best way to ensure the unconditional release of all foreign hostages.

Iraq, largely isolated by economic sanctions, has so far been delighted by the stream of visitors and messages seeking the release of hostages. According to INA, the release of the latest batch of 106 hostages was won by the combined efforts of Mr Nakasone, a Swedish Islamic group, an Italian parliamentary delegation, and the International Trade Union Federation.

Mr Aziz said from Washington: Iraqi officials have agreed to allow some of the Americans held as "human shields" at strategic sites to send messages home to their families, the American Red Cross announced yesterday. The agreement essentially will permit family members to send parcels containing medicine, food, clothing and books to relatives in Iraq.



An American Marine KC-130 tanker aeroplane prepares to refuel two F/A-18 fighters over the Gulf yesterday

## Attack on Iraqis 'unlikely' this year

By Peter Riddell, US Editor in Washington

ANY US military action to force Iraq to withdraw from Kuwait is not expected to be ordered until after the end of this year, according to western diplomats closely involved in allied consultations on the Gulf crisis.

In the view of such diplomats the current mission to the Middle East, Europe and the Soviet Union by Mr James Baker, the US secretary of state, is just a first US look at the situation, to examine the effect of sanctions and to examine possible military con-

tingency plans. It is likely to be followed by further reviews. This leads to the conclusion that, unless there is Iraqi provocation, there will be no war yet, at any rate not this year.

President George Bush, who himself is scheduled to visit the Middle East in two weeks' time, has not decided on the request from the Pentagon to send another 100,000 troops to the region.

Even if they came from bases in Europe, moving them and their equipment to Saudi Arabia would take a month

and a further period would be required for their acclimatisation and training. There is a clear weather/religious window for operations in January and February before Muslim holidays and a rising temperature.

Allied leaders are agreed that they will not seek to provoke an incident unless every one involved is ready to accept the military option.

For instance, implementing last week's United Nations resolution on the resupply of the US and British embassies in Kuwait is not at present being

seen as a backdoor way of forcing the issue with the Iraqis.

There is also some confidence that the Iraqi army is suffering from shortages of essential supplies.

Saudi Arabia's foreign minister warned Iraq yesterday that the United Nations has not restricted the use of military force to liberate Kuwait, (AP-10) reports from Cairo.

Prince Saud al-Faisal said after meeting Mr James Baker in Jeddah: "We would like a peaceful settlement, but that option is in the hands of Iraq."

# Rebel Rabbi's fatal attraction

Hugh Carnegie on the man who chilled Arab and Israeli hearts

THAT Rabbi Meir Kahane, the extremist US-born Israeli politician assassinated in New York, was a fatal attraction to Arabs goes without saying. But to Israeli society, still haunted by the fear of persecution, his open racism presented a more complex and deeply uncomfortable challenge.

Rabbi Kahane, who brought his brand of militancy to Israel only in 1971, often said that what he dared to voice publicly was no more than what most Israelis felt in their hearts. What he said, loud and clear, was that all the Arab citizens of Israel and Palestinians living in the occupied territories should be physically removed.

This policy of "transfer" to establish a purely Jewish state was underpinned for Rabbi Kahane by his interpretation that Jewish law does not allow for the mixing of Jew and Gentile. In the volatile conditions of the area, his message had a fatal attraction for some Israelis susceptible to this potent mix of simple solutions laced with religious fervour.

But equally, the emergence of Kahane and his Kach party appealed most Israelis. Particularly among those whose families came from Europe, the Ashkenazis, he evoked an agonised horror that a country founded in the wake of the Nazi Holocaust could spawn such a movement.

Kach has never mustered more than a tiny minority of electoral support, but thanks to Israel's form of proportional representation, Rabbi Kahane did manage to achieve election

to the Knesset in 1984. Before the next election four years later, parliament passed a law barring Kach from standing because of its "Nazi-like, undemocratic and racist" stance. Israeli Television and Radio imposed a virtual boycott on Kahane.

Since 1988, Kach has been confined to the outer fringes of Israeli politics. But its fervent young followers, typically chanting "Death to Arabs", appear whenever communal violence between Arab and Jew boils over, especially in Jerusalem, often physically attacking Arabs and calling for revenge for any Jewish injury.

More than this lingering street presence, an extremist trend in Israeli politics persists which Rabbi Kahane helped foment. Professor Yitzhak Gal Nur of the Hebrew University said yesterday that Kahane had always suffered in popularity terms because he was an outsider - not a native-born Israeli nor even an early immigrant.

However, "local" parties and politicians advocating transfer, without force, had taken the place of Kach - including the Mokedet party, with two members in the Knesset. Parties such as Mokedet claim a majority of Israelis support them.

This is almost certainly exaggerated. But opinion polls have shown significant numbers in favour of certain circumstances. It is the suggestion that the likes of Rabbi Kahane may somewhere touch the mainstream that unnerves many Israelis.



Kahane: he helped foment extremist trend in Israeli politics



King Hussein: dramatic plea to avoid fighting

## King Hussein warns of 'devastating' war

By John Hunt, Environment Correspondent, in Geneva

A WAR against Iraq would cause an environmental catastrophe in the Middle East, with the destruction of oilfields creating a cloud of gases that would increase global warming, King Hussein of Jordan warned yesterday.

He told the World Climate Conference in Geneva that it would be the worst disaster since the explosion of the Soviet nuclear power plant in Chernobyl.

The king called for continued negotiations to resolve the Gulf crisis and the eventual

establishment of a Middle East peace zone free from weapons of mass destruction.

His warning was greeted with some scepticism by scientists and environmental groups at the conference.

They felt that his speech was an exaggeration and that all the underground oil reserves in the area would need to be destroyed simultaneously to create anything like the devastation which is envisaged by the king.

With heads of government - including Britain's Mr Mar-

garet Thatcher and Mr Michel Rocard of France - listening, the Jordanian monarch said that a Gulf war could result in the use of chemical and biological weapons, with widespread destruction of oilfields and oil storage depots.

He said preliminary calculations by his scientists showed that if half Kuwait's oil reserves - 50bn barrels - were to go up in flames in the war, the environmental impact would be "swift, severe and devastating".

The King's critics, however, believe the figure of 50bn barrels is ludicrously high. King Hussein said emissions of carbon monoxide, carbon dioxide which contributes to the greenhouse effect and sulphur dioxide which causes acid rain would surpass international safety standards by several hundred-fold.

"It would blacken the skies over a radius of at least 750km from Kuwait - that is all of Kuwait, Iraq, Bahrain, Qatar, the Emirates, the waters of the Gulf and most of Saudi Arabia, Jordan, Syria and Iran."

## Time heals few wounds in East Timor

Resentment against Indonesia still pervades a sleepy province, says Claire Bolderson

THE people of the tiny Indonesian province of East Timor are excited about events in the Gulf. If the world will rally to save the Kuwaitis from their aggressive next-door neighbour, they say, surely it will do the same for them.

It is 15 years since East Timor, abandoned by its Portuguese colonial masters to civil war and chaos, was invaded by Indonesian troops and incorporated into Indonesia. But time has done little to win the Timorese over to accepting Jakarta's rule.

Young people in the sleepy provincial capital, Dili, still talk excitedly of being "rescued" by the United Nations or by the Portuguese, for whom they have developed a surprisingly strong nostalgic attachment.

The reality, however, is that Indonesia has no intention of giving up its newest province. The long and drawn-out war for independence conducted from the province's rugged mountains by Fretilin guerrillas is now essentially over.

Thousands of people died in the struggle and tens of thousands more perished from the hardships of a conflict the world knows little about. In all, more than 100,000 of a total population of 600,000 are believed to have lost their lives since the mid-1970s.

Nowadays the guerrillas number no more than about 200 and they only come out of hiding to steal food from the villages or to give their children a tour of an orphanage run by the Catholic Church.

But that does not mean that the Timorese have given in. In place of the war the focus of anti-Indonesian sentiment has shifted to the towns, where an increasingly politicised and disgruntled Timorese youth is presenting new problems for Jakarta.

Student anger is being stirred by what the Timorese

call "the second Indonesian invasion", the influx of Indonesians from other islands into the province. Several thousand non-Timorese have moved in since the province was declared open in late 1988.

Most have very different racial and religious backgrounds to the Timorese, 90 per cent of whom are Catholics. It is a problem that the Jakarta-appointed Governor Mario Viegas Carrascao is well aware of. As he puts it, he wants to "push the East Timorese people so that they can compete".

He is anxious to strengthen village co-operatives and to encourage tourism. He also wants to bring in a radical overhaul of the local civil service to provide more jobs for school leavers.

But all that will take time and the young Timorese are becoming increasingly impatient. In September students launched a demonstration at the end of a large open air Mass in Dili. They waved Fretilin flags and banners calling

on the Indonesians to leave East Timor.

There have been similar protests twice in the past year, the first when the Pope visited East Timor last October. But according to a priest in Dili who witnessed September's demonstration, the event marked the first time that the general public joined the students. "The people are now more united than ever" in their opposition to Indonesia, the priest said.

Unlike on the previous occasions, the security forces did not intervene in the demonstration and there were no immediate arrests. But afterwards students and church officials say that gangs of masked men roamed the streets, beating young people and sometimes detaining them.

More recently reports from Dili say there have been serious disturbances involving students and the security forces. Two schools were occupied by the police and army and there were numerous arrests and beatings.

Ironically, the tension in Dili comes at a time when the Indonesian military's tight grip on the rest of the province was being relaxed.

The army is less visible and more discreet than in previous years. Under a new commander, Brigadier Warouw, it has been trying for the first time to work with the people to rebuild East Timor's shattered economy.

That policy, however, may have served only to lift the lid on 15 years of frustration and resentment. Recent events in Dili indicate that for the time being at least the new strategy may have been abandoned in a determined effort to stamp out youth unrest.

The governor says he is worried about a return to previous military tactics, which allegedly involved the widespread use of torture, beatings and killings, and he has spoken of his fear that the province may once again be closed to the outside world.

He says it will take years before the East Timorese get over their fear and hatred of the Indonesians and that only a long-term "softly" approach by the army forces stands a chance of winning them round.

It is more than evident to the visitor in East Timor that 15 years after the arrival of Indonesian troops, the people do not think of themselves as Indonesian. It is also apparent that they still live in an occupied state.

## Black township put under night curfew

A NIGHT curfew was imposed on the black township of Bekkersdal yesterday where 25 people have been killed in six days of factional feuding, Reuters reports from Johannesburg.

Police stood between the warring factions and fired teargas to separate young knife-wielding combatants in the township, 50km (30 miles) west of Johannesburg.

Some families packed belongings and fled, fearing more violence between supporters of the African National Congress (ANC), the largest group fighting white rule, and those backing black consciousness movements which stress black self-reliance in the anti-apartheid struggle.

Mr Adrian Vlok, South Africa's law and order minister, who imposed the restric-

tion, said: "In view of the recent spate of violence in Bekkersdal, in which several people have been killed and large-scale destruction caused to property, I have decided to impose a curfew in the affected area as from tonight."

The curfew will be in force from 9pm until 4am every day until further notice.

Mr Eugene Opperman, a police spokesman, said police would not tolerate "any groups attacking one another and will disperse any persons forming groups."

Police said four people were killed overnight, one shot dead by soldiers and three in fighting between rival political groups.

Mr Opperman put the death toll since last Thursday at 25. Earlier reports said 23 people had been killed.

## \$900m loan for Algeria

LOANS worth \$900m have been extended by Al Baraka, the private Saudi banking group to Algeria, the proceeds of which are to finance trade between North African countries, writes Francis Ghiles in Algiers.

The first loan amounts to \$500m and will run for between three and eight years. The second is a lessening credit of \$200m which will be extended by a newly created joint Algerian-Saudi leasing company.

The Algerian partner will be the Banque d'Algerie d'Algerie. The third line of credit

amounts to \$200m and will be extended by the joint bank the Al Baraka Group has with Tunisia, Beit Eitanwil Saudi Tunisia.

The Algerian partners in this instance are BEA, the Banque Nationale d'Algerie and the Banque de l'Agriculture et du Développement Rural.

All these agreements were signed by the chairman of the Al Baraka Group, Sheikh Salah Abdallah Kamel, with the Algerian prime minister, Mr Mouloud Hamrouche in Algeria last weekend.

## S Korean ruling party factions near agreement

By John Riddling in Seoul

SOUTH Korea's President, Mr Roh Tae Woo, and Mr Kim Young Sam, his number two in the ruling Democratic Liberal Party, yesterday agreed to shelve plans to revise the constitution to implement a cabinet system of government.

The agreement goes much of the way to resolving the most serious factional division within the DLP since its formation in February.

Differences between Mr Kim, who wants to maintain the current system of presidential government and Mr Roh, who is in favour of the constitutional revision, threatened to

break up the party. Mr Kim, executive chairman of the DLP, has been boycotting party activities since the end of last month and about 60 national assembly members belonging to his faction have threatened to withdraw from the DLP in support of their leader.

But despite the progress made in last night's meeting, Mr Roh and Mr Kim differed on how to increase discipline within the party.

Mr Kim has cited this as an important demand and is seeking greater authority within the DLP.

## Indian premier may stay on as caretaker

By David Housego in New Delhi

MR Rajiv Gandhi's Congress party last night announced it would support in parliament a minority administration headed by Mr Chandra Shekar, the leader of a breakaway faction of the Janata Dal. But it also made clear that it would not participate in a coalition government with Mr Chandra Shekar.

With Congress support, Mr Chandra Shekar seemed likely to have a majority in parliament if he is called on by the president, Mr Z Venkataraman, to form a government.

But the president still seemed reluctant last night to name a prime minister from a group so far able to show proof of having support from only 58 members in a house of 543.

The president, anxious to avoid fresh general elections in the climate of violence, made known he would favour the formation of a national government. This was welcomed by prime minister V P Singh, but it was cold shouldered by the Congress party.

Mr Singh is expected to be voted from power in a vote of confidence today and will thus be forced to resign as prime minister. But the president is likely to ask him to stay on as head of a caretaker administration until a new government can be formed or elections are held.

Mr Chandra Shekar, who announced that his party would be known as Janata Dal(S) - for Socialist - found unexpected obstacles to his plans to take over as premier when Mr Singh had Mr Chandra Shekar and 24 other rebels expelled from the Janata Dal and declared by the speaker of the parliament as "unattached" or independent.

The result of this manoeuvre is that under India's anti-defection laws Mr Chandra Shekar needs to enforce away a further third of the official Janata Dal before his faction can be recognised as a separate parliamentary party.

As an "unattached" member, Mr Chandra Shekar is unable to join another existing party or a new party - including the one he has set up. These problems influenced Congress not to take part in a government with him.

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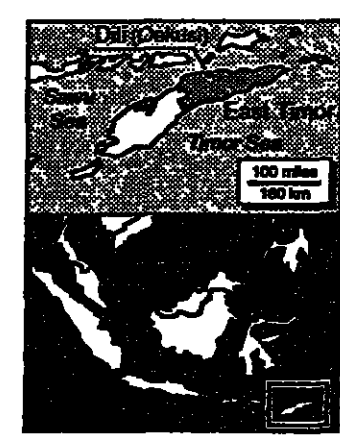
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## Hong Kong's industry hit by slowing of investment

By John Elliott in Hong Kong

HONG Kong's manufacturing industry is being hit by a slow downturn in the rate of new investment. Overseas investment rose by only 14 per cent last year (compared with 24 per cent in 1988) because confidence in the colony's future was hit by China's Tiananmen Square crisis 17 months ago.

The colony's role as a manufacturing base is also being hit by a switch of domestic investment into residential property and service industries, as investors look for quick profits.

New monetary statistics show that loans and advances for manufacturing industry fell by 0.3 per cent between July and September this year. During the past year they rose by only 3.5 per cent, while loans for residential property grew by 33 per cent.

A government survey published yesterday said that 33

per cent of 584 manufacturing companies believed that overall operating environment was not favourable; 39 per cent said that Hong Kong's political stability was an unfavourable factor. The political future was dubbed as unfavourable by 51 per cent. These findings are broadly in line with last year's survey.

During the year the 14 per cent rise of HK\$3.6bn (£236m) in manufacturing investment brought the total to HK\$22.7bn. This compares with HK\$11.4bn in 1984, when the survey was started.

Japan accounted for nearly half of last year's new investment but it remained the second biggest. Tokyo's investment was 29 per cent of the total, with the US the largest with 31 per cent followed by the UK with 7 per cent.

## Blast kills 14 at new Indian gas complex

By Gita Piramei in Bombay

FOURTEEN people were killed and more than 30 injured in an explosion at the Maharashtra gas cracker complex belonging to the government-controlled Indian Petrochemical Corporation, India's biggest petrochemical company.

The explosion is believed to have been caused by a leak in a pipeline. The complex, a massive 300,000 tonnes a year ethylene unit, located at Nagthane, and built at a cost of Rs13.9bn (£40m), was commissioned with much fanfare barely two months ago.

While company spokesmen were unwilling to quantify how badly the plant has been damaged, it is believed that it will have to be shut down for some time. According to industry experts, this would mean a minimum of 14 weeks.

## Amnesty attacks 'secret state of terror' in Burma

By Roger Matthews, Asia Editor

THE appalling human rights record of the military regime in Burma is further documented today in two new reports issued by Amnesty International which provide the first detailed account of events in the country since the overwhelming election victory in May by the opposition National League for Democracy.

Amnesty says that a "secret state of terror" now exists in Burma. "Simply knowing a critic of the government can put you at risk of being arrested and detained by the military."

The State Law and Order Restoration Council, which has ruled Burma for more than two years, has not only ignored May's election results but has arrested a growing number of NLD party activists and successful candidates. The judicial

system has been reduced to an assembly line feeding the country's prisons, according to Amnesty.

It adds that torture has become commonplace. Many people who have been arrested have not been heard of subsequently, and the reports say that there is no way of knowing whether the people are dead or alive.

Among the latest victims have been Buddhist monks who, as part of their protests against the military, have refused to perform religious ceremonies for soldiers.

Troops have entered more than 130 monasteries in the past month and at least 300 monks are believed to have been detained, Amnesty says. The official media in Burma has described the monks as arrested as being part of a Communist conspiracy.

السعودية العربية



## Union says Mannesmann, Vallourac and Dalmine also in talks British Steel in talks with Japanese on joint venture

By Charles Leadbeater, Industrial Editor

BRITISH Steel has been holding talks with Japanese steel companies over a possible joint venture involving its loss-making Clydesdale tubeworks in Lanarkshire, Scotland. A joint venture with a Japanese group is one of the options under consideration in an effort to stem the losses at the works which have put its future into doubt. The plant has been hit by overcapacity in the European steel tube industry of about 60 per cent which has driven down prices. Several times in the past six months Sir Robert Scholey, British Steel's chairman, has warned that the company has been making significant losses at the plant. Speculation about its future intensified after Mr Malcolm Rifkind, the Scottish secretary, wrote to Sir Robert asking him to clarify the plant's position. Mr Rifkind's move followed a meeting on Monday night with shop stewards who are pressing for a £12m investment programme to update its mills. A venture with a Japanese steel group would be a radical departure for British Steel and would confirm the growing interest Japanese producers are showing in the European

market. This is at a time when steel producers in Europe are facing lower demand and profits. Although all but one of the US integrated steel producers have joint ventures with Japanese steel makers, the Japanese incursion into the European market has been confined to small ventures. However, last month, Mitsui, the Japanese steel producer, announced plans for the most ambitious joint venture yet, with Klockner, the west German steel maker, and Raasturkki, the Finnish producer, to build a galvanising line to supply steel to the car industry. Mr Harry Ford, the managing director of the Clydesdale works, told shop stewards recently that Japanese steel groups were among those the company had most recently talked to in an effort to resolve the plant's future. Trade union officials at the works have been told that British Steel also talked to Mannesmann, the west German steel group which is Europe's largest steel tubes producer, Vallourac, the French producer, and Dalmine of Italy. Mannesmann yesterday confirmed that it had talks with

British Steel earlier this year about a range of issues. It dismissed as "pure speculation" that it was involved in talks over Clydesdale. British Steel would not comment on the suggestions that it was seeking a joint venture partner for the plant. Trade union officials believe any joint venture with a European partner would involve only the Imperial Works, which finishes off pipes supplied to it from the Clydesdale mill. A European producer would probably only be interested in having a UK finishing facility, which it could supply with steel from its own mills on the Continent. However, a joint venture with a Japanese producer might hold out the prospect of keeping more of the works going as a Japanese steel maker would probably need both manufacturing and finishing facilities. Mr Rifkind's intervention follows growing concern in Scotland about the future of the Clydesdale works. He told the shop stewards that at a recent meeting with British Steel, Sir Robert had given a very gloomy assessment of the plant's position.

## Forthright cleric to lead Irish Catholics

By Our Belfast Correspondent

BISHOP Cahal Daly, an outspoken critic of the Provisional IRA and an internationally respected ecclesiastical scholar, was yesterday appointed leader of Ireland's 3.7m Roman Catholics. Dr Daly, aged 73, has been based in Belfast as Bishop of Down and Connor since 1982. His appointment as Archbishop of Armagh and Primate of All Ireland was broadly welcomed by leading Protestant churchmen and political figures who highlighted his forthright condemnation of terrorism and work for reconciliation in Northern Ireland. Dr Daly, who succeeds Cardinal Tomás Ó Fiaich who died on a visit to Lourdes last May, will lead an archdiocese flock of 194,000 Catholics from Armagh in Northern Ireland. He will not, however, automatically become a cardinal as that nomination is the prerogative of the pope. The son of a primary school teacher, Dr Daly was born at Loughguile in Co Antrim. Dr Daly taught scholastic philosophy at Queen's University, Belfast for 21 years. Observers said yesterday his



Cleric on camera: Dr Daly meets the press yesterday after his appointment

appointment was unlikely to produce any radical reforms of doctrinal teaching in the church. Dr Daly said one of his main aims would be to work with his Protestant counterparts to break down the "walls of prejudice" in Northern Ireland and end the violence which he said had afflicted the community for two disastrous decades. The Roman Catholic Archbishop of Dublin, Dr Desmond Connell, said the new primate was deeply respected as a courageous leader. Dr Robin Eames, the Church of Ireland Primate, extended

his good wishes as Dr Daly prepared "to assume the onerous responsibilities which awaited him." Mr Peter Brooke, the Northern Ireland Secretary, said Dr Daly was widely respected throughout Northern Ireland for his resolute condemnation of violence, his concern for individual well-being and his long-standing efforts to promote reconciliation. "The Bishop is widely respected throughout Northern Ireland for his resolute condemnation of violence, his concern for individual well-being and his long-standing efforts to

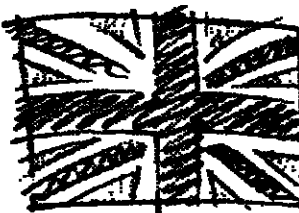
bring about reconciliation. "He is a most distinguished churchman for whom I have a great personal respect," he said. Dr Daly, for his part, has welcomed Mr Brooke's attempt to get all-party talks under way in Ulster. "If politicians cannot find ways of talking together with one another about how we share this part of Ireland together - that is surely sending a sign of hopelessness and despair and I would suggest an abdication of political responsibility."

## Abolition of duty free to 'cost £350m'

By David Churchill, Leisure Industries Correspondent

THE ABOLITION of duty free shopping at airports in Britain and on the Continent will cost the aviation industry about £350m a year in lost revenue and lead to higher airline prices, it was claimed yesterday. Dr Gunter Esser, director general of the International Air Traffic Association, told delegates to the Association of British Travel Agents conference in Budapest that the European aviation industry also faced an extra £250m in costs as a result of the proposed imposition of VAT on airline tickets and other services. "The extra costs come as scheduled air fares are already set to rise by up to 8 per cent as a result of the rise in aviation fuel prices. The airlines are as conscious as anybody that they cannot raise prices very far, before demand for their products begins to erode," he said. Dr Esser also said that the impact of the Gulf crisis means that the international airlines will make a loss of about £1bn this year. "This is short-term bad news for everybody - margins are being squeezed, air fares have already risen and they will rise some more."

## BRITAIN IN BRIEF



### Investment on railways defended

Mr Cecil Parkinson, the transport secretary, set out to demolish claims that Britain's record on railway investment compared poorly with that of its Continental neighbours. He told the Chartered Institute of Transport in London that investment levels in Britain were at least as high as those in France and Germany. He said British Rail planned to invest £5bn over the next four years. French railways were investing £9.5bn over the same period and German railways about £11bn, but their railway networks were twice as big as Britain's. Mr Parkinson said claims that BR was under-funded were untrue. In spite of its heavy investment programme and operating losses, long-term debt in its latest accounts was just £203m. By comparison, French railways had debts of £9.4bn and German railways had debts of £15bn. "So who is under-funding their railways?" Mr Parkinson asked. "Certainly not the UK."



Parkinson: UK railways are 'not underfunded'

### ITN safe from competition

Independent Television News will not face competition until at least 1996, according to the authority that is to run commercial broadcasting in the UK. The Independent Television Commission, in shadow form until January, said it believed that the maintenance of a high-quality news service on Channel 3, as ITV will be known, would "be best secured initially by the nomination of only one news provider". The Commission said it would invite ITN to apply for nomination for the 10 years from 1996 and a decision would be taken by January before the bids for Channel 3 licences have to be submitted.

### New car sales fall by 13.95%

UK new car sales fell by 13.95 per cent in October, the second biggest monthly decline this year, as the recession in the UK new vehicle market

deepened. Registrations of new commercial vehicles fell by 22.36 per cent, led by a 34.37 per cent decline in truck sales. UK new car sales in October fell to 130,377 from 151,514 a year ago, while sales in the first ten months of the year at 1,828,598 were 11.7 per cent lower than a year ago.

### UK lags behind in childcare

A family pressure group says children in the UK face an unequal start in the provision of childcare in Europe in the 1990s. The Scottish Child and Family Alliance has published a report that claims "the gap between publicly funded provision in the UK and most other European countries is widening despite rising employment rates of women with children. There are only places in day nurseries for 2 per cent of pre-school children and formal regulated services continue to form only a tiny island in a sea of informal care and unpaid help," says the report's author, Ms Bronwen Cohen, director of the alliance. The report, Caring For Children, says that while publicly funded nursery provision increased in France and Denmark by 14 per cent between 1986-89, in the UK local authority day nursery provision increased by only 4 per cent.

### Extra fuel tax deamed

The fossil fuel levy which subsidises the generation of electricity from nuclear and renewable sources should be widened to promote new programmes to reduce emissions from coal-fired power stations, according to proposals by the opposition Labour party. The measure would be part of a strategy to rebuild the UK coal industry whilst promoting energy efficiency and conservation. The document proposes maintaining the fossil fuel levy at its current level of £1.15bn a year, but re-directing the money to the development of renewable energy, the clean-up of fossil fuel generation and energy efficiency. The "Cleaner Energy Levy", which would require European Community approval, would be used to give an incentive to generators to extend the current flue-gas desulphurisation (FGD) programme to reduce sulphur dioxide emissions.

### House prices fall again

Hopes for a recovery in the housing market were dented by the Halifax Building Society's house price index for October, which showed that house prices fell nationally after a rally in September. The Halifax warned that prices were likely to end 1990 slightly lower than a year ago, and that the housing market showed "few signs of recovery". House prices are now 0.4 per cent lower than they were a year ago, having dropped a seasonally adjusted 0.2 per cent in October. The interest rate cut announced when the UK joined the exchange rate mechanism of the European Monetary System had a brief positive effect, according to the Halifax.

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## UK NEWS

Government told to cut inflation and ensure European presence

## Employers say Tories are heading for election defeat

By Michael Cassell, Business Correspondent

THE ruling Conservative government faces election defeat unless it unites behind policies to cut inflation and to ensure Britain plays a leading role in Europe, the Confederation of British Industry warned yesterday.

The organisation, which represents companies employing 12m people, also accused ministers of contributing to the country's economic problems, with a series of own goals in the fight against inflation.

In a blunt message from a business community increasingly unsettled by the Conservative party's present difficulties, Mr John Banham, CBI president, told the government: "Before it is too late, get your act together."

Mr Banham, speaking at the end of the CBI's annual conference in Glasgow, also predicted that policies which left Britain isolated in Europe would be a catastrophe for British business. The government had to



Banham: blunt warning

be involved in discussions on monetary union and had to continue to lead efforts to complete the single market.

Mr Banham, who credited the government with stimulating manufacturing output, exports, investment and jobs, said its priority had to remain

bringing inflation under control within the next year. If it failed, Britain faced the "human tragedy" of another 1m unemployed.

He said too much of the damage to the economy had been "self-induced". Interest rates had been too high for too long, entry in the European exchange rate mechanism had come too late on terms which overvalued sterling and there had been unnecessary increases in utility charges.

Mr Banham said Britain had a choice in the fight against inflation. It could tackle it "the sensible way or the French way". France had taken five years and put 1m people out of work to learn the lessons of exchange rate discipline but Britain had the chance to act differently. He also called on the government to stimulate personal savings to help restore savings levels to those achieved in other European countries.

## Civil pilots plan first European trade union

By John Gapper

AIRLINE pilots in the European Community are to form what is intended to be the first European trade union. The move is being led by Balpa and Verengung Cockpit, the British and German pilots' associations.

Balpa said the union - to be known as the Euro Cockpit Association (ECA) - will be launched in Brussels this week. The 12 pilots' associations in EC countries will initially work together and may eventually merge into a single body.

This would be the first known pan-European union. It is to press the European Commission to allow it to register as a European body.

Balpa said that the 12 EC pilots' associations had decided to work together because of the series of mergers and ventures among European airlines, including the proposed joint venture to be formed by British Airways, Sabena and KLM.

The associations have together allocated \$250,000 to establish the ECA, which will have 20,000 members. It will decide on Thursday on its constitution and will appoint a full-time general secretary.

Mr Roger Mulberge, chairman of Balpa, said the ECA would initially co-ordinate unions, but would eventually take over their national negotiating roles.

Mr Mulberge said the ECA would initially have a bigger role than as a European union confederation. He said its policy would be formed by an annual conference of delegates elected by each of the affiliated associations.

The pilots' associations believe the company restructuring taking place within the EC will make a European base essential. They want to lobby the Commission over regulations on matters such as pilots' flying hours.

Among the airline pilots associations which will form the ECA with Balpa and Verengung Cockpit are the Syndicat National de Pilots de Ligne in France, and the Associazione Nazionale Piloti Aviazione Commerciale in Italy.

## Hurd's stature grows with the crisis

By Philip Stephens, Political Editor

ANYONE searching for a symbol of the bewildering switchback of political fortunes in Mrs Margaret Thatcher's beleaguered government need look no further than Mr Douglas Hurd.

Just 15 months ago Mr Hurd suffered the public humiliation of being told by the press that his then job as home secretary had been offered - and turned down - by Sir Geoffrey Howe.

Now, a year after Mr Nigel Lawson's resignation forced Mrs Thatcher to give him the job he had always coveted and she had always denied him, the foreign secretary has emerged as the most powerful man in the cabinet.

Over the past few days, Mr Hurd has been in the forefront of the frantic efforts of senior ministers to calm the crisis of confidence within the Conservative party generated by Sir Geoffrey's shock resignation as deputy prime minister.

With the blessing of Downing Street he has given a succession of media interviews designed to restore unity among Tory MPs and forestall a challenge to Mr Thatcher's leadership of the party.

In the process he has emerged - unintentionally his friends insist - as the strongest internal candidate for the leadership should his efforts to save the prime minister fail.

As Mr Michael Heseltine has fuelled speculation about a contest, some of his cabinet colleagues have been quietly suggesting that if the worse comes to the worse they will



In defending government unity Mr Hurd has emerged as the strongest internal candidate for the party leadership

draft Mr Hurd as the establishment candidate.

In a typically calm and skilful speech to the employers' association, the CBI, on Monday Mr Hurd set out clearly the policy on European integration on which he believes the government - including Mrs Thatcher - must unite.

The speech struck a careful balance between the instinctive Europeanism which Mr Hurd has carried with him from his days as an aide to Mr

Edward Heath, the former Conservative prime minister, in the early 1970s with an unapologetic assertion of Britain's self-interest.

His message was that the extremists on both sides of the debate over Europe were obscuring the more basic truth - that a huge majority in the Tory party and in the country will happily unite behind a policy of gradualist integration.

The enemy, he believes, are the absolutists who talk either

in terms of a united states of Europe or alternatively of filling the channel tunnel with concrete.

His stance reflects also the view that although Europe has emerged as a potent symbol of current turmoil within the Conservative party, the roots of the government's present troubles lie with the general slump in its popularity.

Once inflation and interest rates begin to fall, the argument runs, few Tory MPs will want to concern themselves with the intricacies of the "hard ECU" or the shape of a new European monetary institution.

That judgement, however, is based on two crucial calculations which remain to be tested. The first is that for all the sound and fury after the Rome summit Britain's European partners will do their utmost to avoid isolating the government: that both Germany and France see Britain, for all its reluctance, as an essential pillar in the architecture of a more integrated Europe.

The second is that Mrs Thatcher agrees to remain on the platform that Mr Hurd has now reassessed. The expectation is that in today's debate she will stick carefully to the script. But even the most optimistic foreign office official will not offer a guarantee that the prime minister will suppress her instincts indefinitely. If she does not Mr Hurd may well find himself fighting Mr Heseltine for the leadership.

## Bank of England seeks to stem speculation on interest rate cut

By Peter Marsh, Economics Staff

GROWING SPECULATION in financial markets that tomorrow's Autumn Statement on the economy could be followed soon afterwards by a cut in base rates was countered yesterday by firm signals from the government that monetary policy is likely to remain tight.

In the money markets, the Bank of England resorted to lending at above prevailing rates to damp expectations of a rate cut, while the Treasury said "precipitate action" to reduce rates was unlikely.

The Bank lent about £200m overnight to the banking system at what is regarded as a penal rate of 15 per cent - 1 percentage point above the base rate. That was instead of using the interbank rate, at which banks lend among themselves, which is generally less than the base rate.

In spite of these signals, expectations persisted that Mr

John Major, the chancellor, might take the opportunity after tomorrow's statement to cut the base rate from 14 per cent in response to growing evidence that the economy is slipping into a recession.

A cut in interest rates would follow the 1 percentage point reduction on October 3. The Autumn Statement will present the government's forecasts for the economy next year and set out public-sector spending plans for the next three years.

Economists expect the government to predict a reduction in inflation and the current account deficit next year, at the same time as revising the £192.3bn spending target for 1991-92 to at least £200bn.

Opinion in the financial markets is that the new government forecasts would enable Mr Major to state that the time is right for a further cut in interest rates, which City ana-

lysts have been predicting for much of the past fortnight.

The Bank has rarely used a penal lending rate. However, because of the recent speculation about interest rate changes, yesterday's move was the third time the authorities have adopted this device in the past week.

In spite of the Bank's move the three-month interbank rate was being quoted last night at about 13.5 per cent. This was both lower than the authorities appear to have wished and also slightly lower than the rate on Monday night - a sign that sentiment about the possibility of a cut in rates had strengthened during the day.

Yesterday sterling gained slightly against the D-Mark, closing half a penny up at DM12.525. Against the dollar, it gained nearly half a cent to \$1.978.

Markets, Page 45

## Town delivers mixed verdict on Heseltine

Jimmy Burns

WHEN it came to loyalties, there was no doubting the political mood yesterday at the local office of the Conservative party near Henley on Thames, yesterday.

A large poster of Mrs Thatcher, resplendent in blue, had been stuck on the door and those wishing to find out more about Mr Michael Heseltine, the local MP, were informed by party workers that all that had to be said about his thinly-veiled attack on the prime minister had been said earlier in the day.

Hours earlier the local association's chairman, Mr Peter Owen, had brusquely rebuffed

Mr Heseltine over his open letter attacking Mrs Thatcher's handling of the European Community. "This association supports the leadership of the party," said Mr Owen.

One would have expected Mr Roger Pickering, a purveyor of fine china and crystals near Henley Bridge, to echo similar sentiments. His shop in the Oxfordshire town, called Carousal, is draped in Union Jacks and populated by such true British characters as Peter Rabbit, models of Spitfires and Wedgwood china.

And yet Mr Pickering was convinced that the party's electoral chances would

improve if Mrs Thatcher gave up the leadership.

"Her stand on Europe is ridiculous. She wants us to be in Europe but only if she is in charge, and this is patently not going to happen," Mr Pickering said before revealing a Peter Rabbit made in Korea and declaring his commitment to buying in German crystals.

Mr Christopher Ballards, a local estate agent, also declared that he "certainly wouldn't mind a change" of leadership although for different reasons.

"I don't think Europe is particularly relevant at the moment in Henley. What mat-

ters to people here is what affects their pocket. And I can tell you, being as I am in the property business, that a lot of people are getting hurt."

Neither Mr Pickering nor Mr Ballards has any doubt that Mr Heseltine wanted the job of prime minister although they appeared to share a wider apprehension locally as to whether he was necessarily the right person to take over.

Shopkeeper Mr Robert Hackford said Mr Heseltine "has always wanted to be prime minister so he might as well strike out now. But I don't think he's the right man at all."



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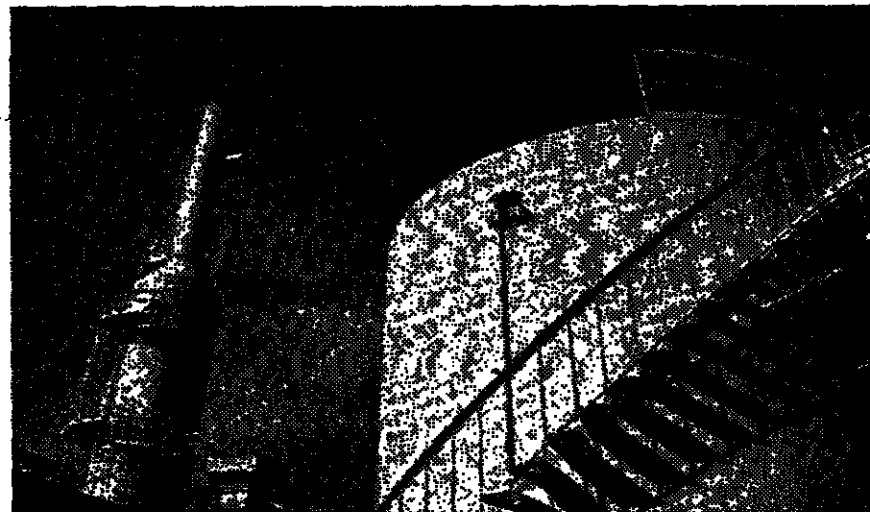
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FT SURVEYS

## FT LAW REPORTS

## Builder cannot add new cause to Java project claim

BALFOUR BEATTY CONSTRUCTION LTD v PARSONS BROWN AND NEWTON LTD

Court of Appeal (Lord Justice Nourse, Lord Justice Farquharson, and Sir David Croom-Johnson): November 1 1990

A WRIT and pleadings claiming breach of contract and negligence arising out of an agreement for the design and construction of buildings under a main contract, cannot be amended to raise a new cause of action outside the limitation period in respect of claims under an earlier agreement relating to tender for the main contract, if the earlier agreement, though referred to in the pleadings as background to the case, was not one of the facts on which the original claim was based.

The Court of Appeal so held when allowing an appeal by the defendants, Parsons Brown and Newton Ltd, from a decision by Judge Fox-Andrews QC allowing the plaintiffs, Balfour Beatty Construction Ltd, to amend their writ and statement of claim.

LORD JUSTICE NOURSE said Balfour were building and engineering contractors. Parsons were consulting engineers.

In March 1981 they entered into an agreement by which Parsons agreed to provide consulting engineering services for the design and construction of a coal handling terminal at Lampung Bay, Java, in respect of which Balfour and a Canadian company intended making a joint tender as main contractors to PT Tambora.

That agreement was recorded in a letter dated March 16 1981 from Balfour to Parsons. The contract provided that "during the tender stage we require from you sufficient in the way of drawings to accurately calculate the cost of the building and civil engineering works, and to allow a tidy presentation to be made to the client by the joint venture".

On July 17 1981 the parties entered into a second agreement by which Balfour agreed to engage Parsons "to provide professional services in connection with the design and construction" of the works.

The tender was submitted on about July 20. It was clear from the terms of the initial agreement that submission of the tender must have signalled completion of its performance.

On July 1 1982 the main contract was entered into between PTBA and the joint venturers. The second agreement did not come into effect until July 9 or shortly after.

In February 1984, when the works were well-advanced, routine checks disclosed settlement of various structures beyond acceptable tolerances. Balfour had to carry out investigations and stabilisation works, including demolition of most of the structures already built. The works could not be completed as planned.

In April 1986 PTBA terminated the main contract and engaged other contractors for reconstruction of the coal terminal to a different layout.

As a result, Balfour had suffered substantial loss and damages, which they limited to £7m. Their case was that the whole of that loss and damage was caused by Parsons' negligence and breach of contract.

The writ was issued on November 11 1987, but not served until November 9 1988. It claimed damages for loss and/or damage arising from breach of July 17 1981 contract, and/or negligence by Parsons "between November 6 1981 and January 1 1985".

A statement of claim was served on November 23 1988. It set out the background. Paragraph 4 stated that by the initial agreement of March 16 1981, Parsons agreed to provide civil engineering services "during the tender stage".

Paragraph 5 stated that by the second agreement Balfour agreed to engage Parsons to provide full professional services "in connection with the design and construction of reclamation, shore protection, marine terminal and civil works...".

Paragraph 9 stated that "both in preparing its tender and in subsequently carrying out the works designed by the

defendants, the plaintiff relied on the skill and expertise of the defendants". It claimed that settlement was the result of inadequate design by Parsons, and particularly failure to pay adequate regard to pre-tender soil investigations.

It alleged that PTBA's termination of the main contract "was caused wholly by the negligence and breach of the contract by the defendants".

On January 18 and May 22 1990 Balfour applied for leave to amend the writ and statement of claim.

As amended the endorsement on the writ would claim damages for loss and/or damages arising out of breach of the March 16 1981 agreement, and/or breach of the July 17 agreement; and/or negligence "between March 16 1981 and January 1 1985".

The amendment would extend the claim in contract by basing it on the initial agreement as well as on the second agreement. It would extend the claim in tort by adding in the period between March 16 and November 5 1981, a period mainly devoted to performance of the initial agreement.

On June 21 1990 Judge Fox-Andrews gave Balfour leave to make all the proposed amendments to the writ and the statement of claim. Parsons now appealed.

Section 35 of the Limitation Act 1980 allowed a new cause of action which would otherwise be statute-barred, to be raised in an existing action provided it "arises out of the same facts or substantially the same facts as are already in issue on any claim previously made in the original action" (see section 35(5)(a)).

Balfour accepted that the contractual claim did not extend to breaches of the initial agreement, but said the tortious claim did extend to breaches of duty during the currency of that agreement.

The question was one of construction of the statement of claim as originally drawn. Construction must not be unduly literal or pedantic. Yet a pleading, being a formal document, could not be held to include a cause of action which its language did not adequately express.

If paragraph 4 had been omitted and if "both in preparing its tender and" had been

omitted from paragraph 9, the statement of claim would have been restricted to breaches of the second agreement and a parallel claim in tort.

Mr Twigg for Balfour submitted that they must have been included for good purpose — that paragraph 4 could only have been included as a basis for a negligence claim under the initial agreement; and that the plea of reliance in paragraph 9, so far as it related to preparation of the tender, could only have been included for the like purpose.

Mr Twigg's view of paragraph 4 was untenable. The only purpose discernible from its language was that it should form the basis of a claim in contract. It was not permissible, when no such claim was made, to go back and treat it as the basis of a claim in tort.

The only fair view of paragraph 4 was that it formed part of the background narrative, and was not essential to the claims ultimately made.

Paragraph 9 certainly looked as if it was intended to form part of a claim in tort extending back to commencement of the initial agreement. But if other material parts of the statement of claim were read together, it was clear that the pleader regarded Parsons' obligation to design the works as having arisen under the second agreement.

Despite paragraph 9, the tortious claim made in the writ and statement of claim as originally drawn, did not extend to breaches of duty during the currency of the initial agreement.

The amended statement of claim involved the addition of new, statute-barred, tortious and contractual causes of action, in respect of the period prior to July 1 1982. They did not arise out of the same facts, or substantially the same facts as were already in issue on any claim made in the action.

There was no jurisdiction to allow the amendments. The appeal was allowed.

Their Lordships agreed.

For Balfour: Patrick Twigg QC and Rosemary Jackson (McKenna & Co)

For Parsons: Rupert Jackson QC and Roger Stewart (Raynolds Porter Chamberlain)

Rachel Davies

Barrister



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Wednesday 7 November 1990 • 'Men of the Year' Awards Souvenir

The Royal Association for Disability and Rehabilitation was formed in 1977 by an amalgamation of two existing organisations, one founded after the first world war and the other after the second. RADAR is an "Association" in the true sense of the word and almost 500 disability and other groups are affiliated to it. RADAR has several objectives which are all designed to improve facilities for disabled people and allow disabled people to control their own lives as far as possible.

In any area of human activity waste is caused by duplication of effort and other resources. RADAR has a fieldwork department with seven fieldworkers in different parts of the country. They provide support to local disability organisations and liaise with them to ensure that RADAR's national policies are informed by and sympathetic to the views of disabled people and their organisations around the country. Clearly this team is too small and when funds become available it is the Association's intention to expand it. This should help to ensure that the efforts of local groups are both effective and efficient.

However much is achieved locally a lead needs to be set nationally. RADAR campaigns for improved facilities for disabled people and during the last year, in co-operation with other disability organisations, was successful in persuading the government to amend the Students Loans Bill to include greater provision for disabled students. The government's response to our representations was so positive that disabled students are now entitled to £1,000 pa Disabled Student Allowance, £3,000 per course maximum for technical equipment and £4,000 per academic year maximum for non-medical personal help.

During the year RADAR published a major book "Passivity to Empowerment - a living skills curriculum for disabled people". This book was the result of a two year research project investigating the best methods of enabling disabled school children to become as physically and emotionally independent as possible. Independence can be defined in many ways but if a child is manifestly and physically unable to dress him or herself it makes sense not to waste time trying to teach them something they will never achieve but instead to teach them something which will be useful. In this context it could be the skills to direct other people how to dress or undress them.

RADAR constantly monitors legislation and the government proposals. At the moment a great deal of work is taking place preparing a detailed response to the Department of Employment's proposals concerning employment services for disabled people. The proposals constitute the biggest review of employment services since 1944 and it is clearly crucial to ensure that the services should remain sensitive to the needs of people with disabilities.

One area in which RADAR has been able to contribute to significant advances in recent years is that of transport and mobility. RADAR offers advice to a large number of transport agencies and recent years have seen the introduction of toilets accessible to wheelchair users on trains, taxis accessible to disabled people on the streets of London and other major cities and a growing recognition that buses and coaches should be accessible to wheelchair users. Many of the specialist transport services which disabled people need are only required because the public transport system is still largely inaccessible. Inaccessible transport creates difficulties for everybody and not just people with disabilities. Our objective is a totally accessible transport service which gives disabled people the choice of being able to go where they want to go and when they want to go within the usual constraints of timetables and provision of services.

Disability is now firmly on the agenda and there is a wide and growing recognition that the needs of disabled people should be met, and in meeting those needs disabled people and their organisations must be consulted. By altering the environment in which we live, by making it accessible, and by able bodied people having more enlightened attitudes most of the disadvantages of a disability disappear. Many disabled people claim their disability is not the most important factor; it is how society reacts to it. RADAR also believes this and believes that if we can remove the barriers which are placed in the way of disabled people the effects of disability will be minimised and disabled people themselves will be able to have the same opportunities and make the same contribution to our society as their able-bodied peers.

## THE 'MEN OF THE YEAR'

RADAR's principal fundraising activities are largely centred around the 'Men of the Year' tradition.

Each year some 12-14 men receive an Award for outstanding courage and achievement in the previous 12-18 months. The men are selected from a large number of nominations sent to RADAR throughout the year. Once the Selection Committee has reached its decision, the 'Men' are invited to attend the Luncheon at which the Awards are presented and which draws its support both from leaders of commerce and industry and individuals associated with RADAR.

Those 'Men' who have been selected to receive the Awards for 1990 can be seen below:



Crew of BA Flight 5390

Captain Tim Lancaster; Alistair Atchison Esq - First Officer; John Heward Esq - Purser; Ms Susan Prince - Stewardess; Simon Rogers Esq - Steward; Nigel Ogden Esq - Steward.

For their courage and devotion to duty during the BA flight 5390 crisis.



Detective Constable Trevor Ginn QGM & Detective Constable Len Jakeman GM

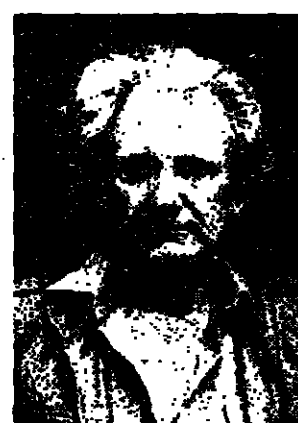
For their courage and resolution in pursuing and apprehending armed bank robbers.



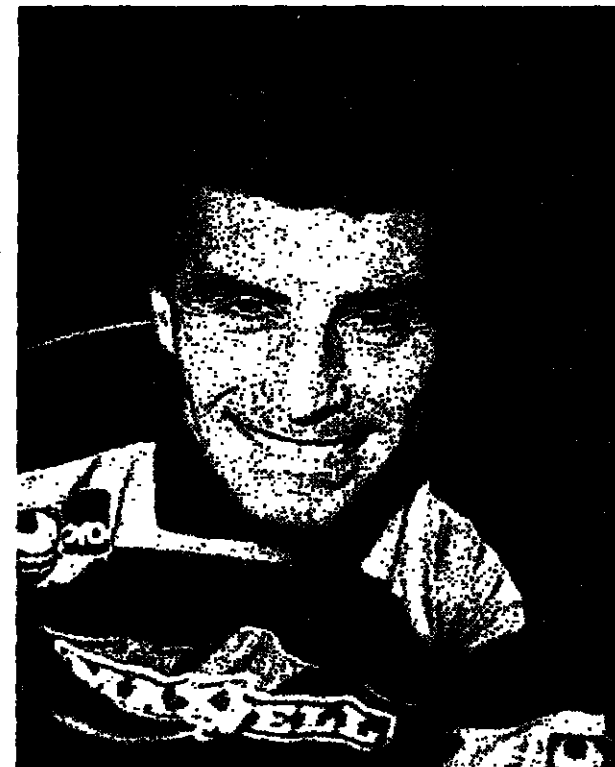
Sir Jeffrey Sterling CBE  
For his outstanding achievements in business and commerce and work for charity.



Richard Baker Esq OBE  
For his outstanding contribution to broadcasting.



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For his artistic achievements and contribution to the protection of the environment.



Peter Scudamore Esq MBE  
For his achievements and services to horse racing.



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For his achievement in becoming one of London's top Tourist's Guides.



Sir Harry Secombe CBE  
For his outstanding contribution to the world of entertainment.



Fireman Robert Fievez  
For his courage in rescuing a small boy from a blazing vehicle.



Coxswain Alan Thomas  
For his outstanding work in rescuing seamen in the gales of September 1989.

### SPONSORS

For the last ten years the Men of the Year Lunch has been generously sponsored by Access the Joint Credit Card Company and during those ten years they have seen a variety of changes, not the least being the vast increase in the financial benefit to RADAR. There has also been the change of venue from the Savoy, where regrettably we had run short of space. It was with reluctance that we left, but the increase in numbers with some 700 guests now attending shows the wisdom of the move.

The new sponsors of the Luncheon - the Leeds Permanent Building Society - are no strangers to the 'Men of the Year' for they have sponsored the 'Mens' Dinner for the last two years and are well aware of the many facets of the event.

This increased support which now includes both the Luncheon and the Dinner is much appreciated and highly valued. It clearly demonstrates the support of voluntary organisations and community service for which 'The Leeds' is well-known.

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## ADVERTISEMENT

## 1960-1990 31 Years On

The 1990 Leeds 'Men of the Year' Luncheon marks the 31st Anniversary of this special occasion and we are here today to share in that great tradition. It is difficult to keep in contact with all the 'Men' but we have managed an update on a few. This news, together with the lists of 'Men' and their achievements that follow, highlights the reason why we are here today.

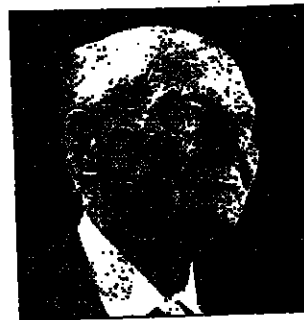
### Sir James Savile OBE KCSI

Nominated in 1978 for his outstanding work for charity and television. Sir James was knighted this year and is still undecided as to whether he wants to be called Sir James or Sir Jimmy. Either way he is 'thrilled to bits' with his knighthood.



### Simon Weston

Nominated in 1985 for his bravery and determination in pursuing rehabilitation. Simon has recently married Lucy Titherington. Congratulations to Simon and Lucy.



### Sir John Gielgud

Nominated in 1989 for his outstanding contribution to the world of entertainment. Sir John together with Sir John Mills appeared before Her Majesty The Queen Mother at her Gala evening to commemorate her 90th birthday.

### Steve Davies MBE

Nominated in 1981 for his achievements in professional snooker. Steve has secured another victory by marrying Judy. Congratulations to Judy and Steve.



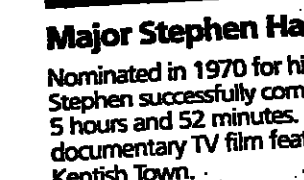
### Sir John Mills CBE

Nominated in 1988 for his outstanding contribution to the world of entertainment. Sir John was invited to read the Queen Mother's 90th birthday message at the birthday parade on Horse Guards.



### Sebastian Coe MBE

Nominated in 1979 for holding the World Records for 800 metres, 1500 metres and mile. Seb has hung up his running shoes and is now Conservative Candidate for Falmouth and Camborne.



### Major Stephen Hambrook GM

Nominated in 1970 for his bomb disposal work. In 1989 Stephen successfully completed a 40 kilometre marathon in 5 hours and 52 minutes. He has recently appeared in a documentary TV film featuring his bomb disposal work at Kentish Town.



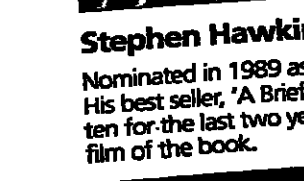
### The Roux Brothers

Were nominated in 1989 for their contribution to and improvement of British Cuisine. Albert & Michel are currently presenting a very entertaining programme on culinary arts on BBC TV.



### Norman Croucher OBE

71 & 78 'Man' - Legless Mountaineer. 21 years after his first trek from John O'Groats to Lands End, Norman is doing it again - this time pushing a shopping trolley to raise funds for RADAR and three other charities.



### Stephen Hawking CH CBE

Nominated in 1989 as a world authority on 'Black Holes'. His best seller, 'A Brief History of Time', has been in the top ten for the last two years. Stephen Spielberg is making a film of the book.



### Tom McClean

Nominated in 1969 & 1982 for his single-handed crossings of the Atlantic. He has done it again! This time in a bottle, raising funds for a children's charity.

## AN EVENING TO REMEMBER

### Radar's Fourth Men of the Year's Dinner THURSDAY 19TH APRIL 1990

The fourth Men of the Year's Dinner, once again held in the marvellous setting of the Savoy Hotel in London, was the most successful to date.

Not only was the Dinner a wonderful social occasion for past recipients of the 'Men of the Year' Award and their families, friends and other supporters of RADAR but it was also an important fundraising event, helping RADAR to continue and expand its work.

Following the precedent started at last year's Dinner, the annual 'Leaders Awards' were presented by the Leeds Permanent Building Society, sponsors of the dinner. These awards are presented to men who in addition to their achievements as past 'Men of the Year', have continued serving the community, RADAR and other voluntary organisations.

The recipients this year were Major Stephen Hambrook, Detective Sergeant John Allport, and George Wilson who was the Director of RADAR until March 1990.



## THE INTERNATIONAL OUTLOOK

The 'Men of the Year' Lunch has always been a very British affair. During the last thirty-one years only two men who have been honoured have not been British, if memory serves well. However, 1992 is by now just around the corner and with the European dimension becoming more important you have to ask whether the Luncheon will also become more European and we will not be honouring the British Gold Medallist in European competitions, but the Gold Medallist from any member state.

Many barriers are already coming down and thinking on questions in the disability field is becoming more European minded. A computerised database for the whole of Europe has started with a comprehensive information service on equipment for disabled people.

Common policy throughout Europe has been discussed and codes of practice produced on such subjects as 'Employment of Disabled People' to see if some uniform line could be adopted to ensure that disabled people have equal opportunities and that their rights are observed. At the moment, a policy document on transport is

being reviewed. All member states are slowly improving transport facilities for disabled people and incorporating their needs in the transport services for the whole community. Throughout Europe there are many systems which allow access for disabled people. No better one can be found than the system from Heathrow Airport where the Airbus is totally accessible and links with an accessible bus-service to main-line stations where on Inter-City and an increasing number of other services you find accessible trains. Alternatively, more and more London taxi-cabs are now suitable for disabled people.

For the last three years HELIOS, a European community programme to encourage integration and independent living for disabled people, has developed projects and themes which will help in this. Regrettably, it is a small programme and at times you are forced to question the priority which the Commission give to that section which they consider disabled.

There are 30 million disabled people in the European community, one tenth of its population, and if 1992 were able to produce for them the benefits which it professes to be bringing to the whole 300 million living in the Community, 1992 would be a true 'annus mirabilis'.

## HOW YOU CAN HELP RADAR

Please support RADAR's work throughout the country by sending a donation to the Head Office in Mortimer Street, or by arranging a Banker's Order. With reports earlier this year stating that there are now 6.2 million disabled people in Great Britain, the need for financial resources here at RADAR to implement and extend our work is considerable. Our sincere thanks in advance.

## DONATION FORM

I wish to make a donation of £..... towards the work of the Royal Association for Disability and Rehabilitation.

I would like to do so by Access/Visa/Cheque. (Please delete as appropriate).

I enclose a cheque for £..... made payable to RADAR.

I wish to debit my Access/Visa\* account.....

My card number is (13 or 16 Digits) \*Please delete as necessary

Signature..... Expiry Date.....

Name (on credit card)

Address

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Please pay now to the National Westminster Bank PLC 69 Margaret Street, London W1N 8HD for the credit of The Royal Association for Disability and Rehabilitation, Account Number 04546490, the sum of £..... (Amount in words)

Signature..... (Name in BLOCK CAPITALS)

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## MANAGEMENT

## Short-termism and the stock market

## Cutting through the conceptual fog

Simon Holberton reports on a study which lays the blame for poor investment decisions and performance at the door of Britain's managers

In this year of recession "short-termism" may turn out to be one of the only growth industries.

Short-termism is a topic which has generated much sound and fury over the years; it may well become an issue in the general election to be held before mid-1992.

The Commons Trade and Industry select committee is currently hearing evidence about it. The Confederation of British Industry said on Monday that it was setting up yet another "steering committee" to investigate ways of discouraging it.

The proposition underlying the short-termism debate is this: the operation of the UK capital market is inimical to long-term planning and investment because the stock market and investors in it are driven by short-term considerations, such as company profits and dividends statements, and their need to perform.

From this core proposition dangles a number of other subsidiary points, viz. share trading turnover is too high, and destabilises investors; act like speculators not owners; and, investors facilitate predatory takeover behaviour. Other countries, notably Japan and Germany, are eyed enviously; their industries enjoy a lower cost of capital mostly because they have benign and understanding owners.

Paul Marsh thinks almost all of this is bunkum, and, in Short-termism on Trial, he provides a lucid justification for his views.

Marsh is professor of management and finance at the London Business School. He is also a non-executive director of M&G Investment Management, one of the City's avowedly "long termist" investors, and is no stranger to the issue. He was a member of the 1987 CBI task force on City and industry relations.

Marsh is a believer in the "effi-

cient market theory" for explaining the behaviour of share prices. This widely accepted theory holds that all available information about a company is contained in its share price. He also believes that self-interest motivates investors and that they tend to act rationally. What does the share price tell one?

Take Imperial Chemical Industries, a company which has just announced a 10 per cent cut in capital expenditure for 1991. At the end of August its share price was 905p; earnings per share were 118p and gross dividend per share 74p.

In theory ICI's share price should reflect the present value of all future dividends. Using a standard model to work out the future dividend growth and discounting it by ICI's cost of equity finance, Marsh finds that the market is expecting ICI's dividends to grow by 13 per cent a year.

"These figures would imply that of ICI's current market capitalisation, only 8 per cent is attributable to the current year's dividend; only 29 per cent can be explained by the present value of the dividends expected over the next 5 years; and only 50 per cent by the value of the dividends expected over the next 10 years."

While this does not constitute evi-

dence, it "does raise an interesting question, namely why anyone should believe that there is a strong *prima facie* case that stock-market prices place too much weight on the short term."

He notes that the operation of the market turns fund managers' selfish actions to a socially useful end. To exploit their knowledge, fund managers must deal before others reach a similar conclusion, he says. But such activity alerts their competitors, and the share price is adjusted accordingly. But, "by spotting market inefficiencies, ie mis-priced shares, the fund managers help to keep the market efficient."

Marsh reports survey findings which show that the influence of quarterly performance measurement of fund managers is less draconian than is often assumed. He also presents evidence to suggest that there has not been a rise in share price volatility or turnover in recent years.

This leads Marsh to suspect that the problem of share prices and investor behaviour is one of "perception and relationships" rather than of any underlying bias in share prices. "There is no evidence that shares are priced in a way which emphasises their short-, rather than long-run prospects. Nor

is there any evidence that the market penalises long-term investment or expenditure on R&D by awarding the shares of the company in question a lower rating - indeed quite the contrary."

Marsh is good at cutting through the conceptual fog concerning share prices and investor behaviour. He also makes some telling points about managerial behaviour and corporate governance.

He identifies "managerial short-termism" as a key force behind poor investment in the UK. When it comes to making plans for the future, managers' perception will be influenced by their organisational systems and contexts, including the way they are remunerated and rewarded; their time horizons within their job; the role played by the internal performance measurement and management accounting systems; and, the internal capital budgeting and project appraisal systems.

Marsh notes that while executive remuneration packages may motivate executives by focusing on short-term profit performance they may discourage long-term thinking. If short-term accounting earnings are being rewarded, a potentially profitable investment which may have an adverse impact on earnings

OUR VIEW IS THAT SHORT-TERMISM HAS HAD ITS DAY—OR WAS IT ONLY 23 HOURS?



ROGER BEALE

in the early years may be rejected.

By contrast, in Japan, it is rare for senior executive salaries to be tied to short-term accounting profits. Bonuses are paid company-wide; the structure of rewards is biased towards long-term performance in the organisation, with salaries based on seniority, experience and individual appraisal. Job mobility is also less than in Anglo-Saxon countries.

Marsh reports the findings of an LBS survey of managers involved in making capital investment proposals. It shows that the current level of profitability is a major influence on investment decisions. The mea-

sure used is accounting profits and return on investment - both short run measures. But as Marsh points out, profitable investments ought to be judged on the basis where expected benefits, in terms of discounted cash flows, exceed the costs.

But the LBS survey found that two-thirds of its 100 respondents used "pay-back" as the method for evaluating investment; a failure to meet pay-back requirements was often cited as a reason to reject an investment proposal. Marsh says: "This is worrying, since pay-back is anyway a potentially short-termist measure, since it ignores cash flows after the pay-back period, and, if

used in the manner implied above, can encourage managers through out the firm to believe that 'shorter is better'."

On corporate governance, he points out a contradiction. Those concerned with better communication focus on the commonality of interests between owners and managers; yet many concerned with better corporate governance are so because they want companies run in the interest of shareholders rather than managers. Better communication could reveal these differences.

The number of non-executive directors may be increasing but that does not guarantee their independence. Although technically appointed by shareholders, non-execs are in practice appointed by the management and are often selected for their connections with the company and because they conform.

Marsh rejects legislative attempts to cure short-termism. Laws would be directed against the wrong culprits, namely the markets and investors. He assails the government's short-termism for not making the necessary investment in Britain's infrastructure, but he believes the solution to short-termism lies with management.

"The problems which British industry and commerce faces in an increasingly international marketplace - key questions of competitiveness, market orientation, quality and excellence - are all issues which, by definition, have to be addressed by the managers and workforces within companies. Any policy prescriptions which ignore this will be fundamentally flawed."

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British exporters of capital goods have long had to live with the knowledge that the financial package accompanying their bid may make all the difference to their ability to secure orders from the developing world.

In the not-too-distant future their life is likely to become harder in this respect when new international rules on export credits are agreed that will ban the use of government-funded interest rate subsidies on loans to middle income countries.

According to David Inglis, chief executive of UK Project Finance, a specialist financial boutique based in a converted workman's cottage behind Victoria station in London, British exporters will be more seriously affected than others by the changes that are now under discussion in the Organ-

## Export credit

## Unbundling - a way round trade barriers

Peter Montagnon reports on the likely ramifications of the banning of government-funded subsidies

isation for Economic Co-operation and Development.

Britain's relatively high interest rates mean that the interest rate subsidies have been more important for UK exporters than for those in other countries such as Germany and Japan with lower rates, he says.

Also, the premiums charged by the Export Credits Guarantee Department for credit insurance are generally higher than those its counterparts abroad, while the grudging attitude of the UK government towards financial support for

exports has led to a dwindling interest in this kind of business from banks in the City.

Meeting this challenge calls for an increased reliance on financial engineering, says Inglis, a softly-spoken Scot who formed UK Project Finance 18 months ago after spells with two US banks - Bank of America and First Chicago.

UK Project Finance has joint ventures with both Davy Corporation and Biter which work exclusively on projects for those companies, but it also works for other compa-

nies as well.

In his time with US banks, Inglis attracted the attention of the financial community by masterminding both the financing of a \$500m Biter water supply contract in Malaysia and by a series of nifty financial packages in support of contracts won by Davy in South Korea.

The Malaysian deal was the largest ever supported by development aid under the UK government's Aid and Trade Provision, while the Davy contracts involved the innovative use of the debt swap market to

produce a low interest rate for the Korean borrower.

With the disappearance of interest rate subsidies expected to be agreed next year, the basic building bloc for such a swap-based package will disappear, however.

By taking sterling debt at a subsidised interest rate and swapping it for debt in another currency more suitable to the borrower, it has been possible to produce exceptionally cheap interest on supplier credits.

Now, says Inglis, this concept needs to be adapted to a

world without interest rate subsidies. The key is to listen to what both the seller and the purchaser actually want and then to marry the two requirements by a series of transactions in the financial markets.

For example, some international buyers have to meet government or other bureaucratic specifications regarding price. Their priority is to achieve a low price, regardless of the cost of servicing the resulting debt. Companies involved in leasing, however, may be particularly interested in a high cash flow.

By introducing a leasing arrangement, discounting the basic price and jacking up the leasing charges, it may be possible to meet the requirements of both sides and still ensure an adequate return for the original supplier.

This still involves some complicated banking transactions, but a further novelty in Inglis' approach is that the total package should be broken up and its different components - interest rate swaps, foreign exchange and basic loan - farmed out to separate banks which are best placed to han-

dle them. This kind of unbundling is harder for a bank itself to undertake. If it wins a mandate to arrange a financial package, its instinct will be to keep as much of the work as possible in house regardless of whether it is fully competitive at each of the separate tasks involved.

It remains to be seen, however, whether this kind of service will be taken up in a big way by British exporters.

One alternative that may be more attractive because it is less complicated is simply to channel business through subsidiaries abroad in countries where there is more government support for exports.

That does not bring export business to the UK, but it does mean that the company itself is still in with a chance of some profit.

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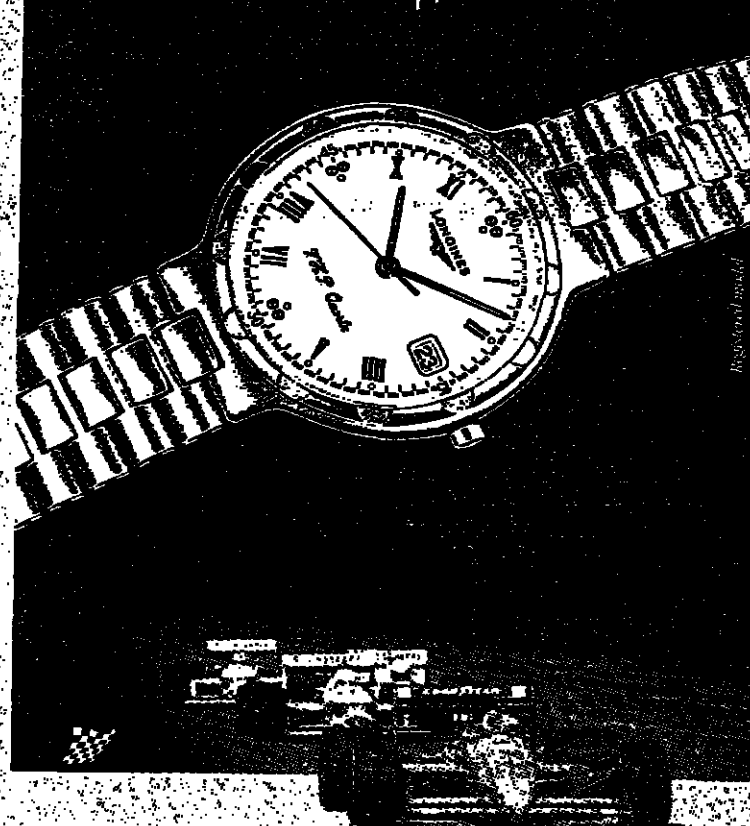
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BUSINESS AND THE ENVIRONMENT

Magazine cuts down on trees

URGING other magazine publishers to follow suit, the Sierra Club, one of the largest environmental groups in the US, will this month begin publishing its award-winning nature magazine, Sierra, on recycled paper.

The move to recycled paper debunks the myth that it cannot meet the standards required for four-colour printing. "For the first time, recycled paper that does not compromise the quality of photographic images is being used by a mass audience magazine," said Doug Scott, Sierra Club Associate Executive for Conservation and Communication.

Sierra, a magazine has more than 500,000 subscribers. "If the top 100 audited magazines were printed on our new paper, each year more than 8.6m trees would be saved, and 253,000 tonnes of trash would be taken out of the waste stream," said Scott.

Sierra will be printed on 50-pound Recycled Ecology Coated stock which contains 50 per cent recycled fiber and 20 per cent de-inked and post-consumer waste. The paper is produced by Bepap Sales of Kimberly, Wisconsin.

The recycled paper is slightly more expensive than the virgin stock that Sierra has been using, acknowledges Carole Pisarcyk, Sierra publisher. There is a shortage of recycled "coated" paper, she explains. While many consumers routinely bundle newspapers for recycling, few magazines are recycled because there are no public collection services for this type of paper.

The Sierra Club hopes that by creating demand for recycled magazine-quality paper, however, it will in turn encourage waste-management companies to routinely collect discarded magazines.

Another challenge is to refine the recycled paper to produce lower-weight versions that maintain the strength required to run through printing presses without breakage. Sierra is testing a 45-pound version of the paper which it hopes to begin using next year. Paper weight is critical to publishers because it determines mailing costs.

Louise Kehoe

Jack Sparke is 71 and had never belonged to a protest group before joining Stop Toxic Incinerators in Cleveland last year. Known as Stinc, the organisation was set up to oppose three toxic waste incinerators due to be built in the north of England if a government inquiry in Durham decides in their favour.

Having worked for a chemical company for most of his life, Sparke is far from being a typical "nimby" or "not in my back yard" opponent of all things chemical. Nor is Cleveland, which has more chemical plant per square foot than anywhere in Europe, the sort of backyard the public usually rises up to protect.

The Durham inquiry, however, is no mere local tiff. Its outcome will be critical for the environmental lobby, which believes that if these incinerators are approved others will follow, turning the UK into a dumping ground for hazardous waste from overseas and discouraging industry from finding internal solutions to its waste problem.

This is what prompted Sparke to join Stinc. "If one incinerator application goes through, there will be a flood," he argues. "A lot of damage [from the chemical industry] was done in the past. But we didn't know then what we know now about the effect on the environment."

What happens at Durham will be equally critical for the UK waste management industry, which has put its weight firmly behind incineration as the waste disposal method of the future. If the UK does not anticipate future demand and build incinerators now, the industry claims, it will be left behind the rest of Europe.

The writing, it says, is on the wall. North Sea dumping will be outlawed by 1996, and landfill restricted by the EC. Soon there will be no alternative to incineration.

The inquiry, which opened on September 11 and is unlikely to reach its final conclusions before next March, focuses on two questions: whether the incinerators are clean and safe, and whether they are necessary. It is expected to be a test case for all such proposals in the future.

Two of the proposals, from Northumbrian Water and US-owned International Technology, are for integrated treatment centres - incinerators that burn sewage sludge and toxic waste - Portrack on the Tees in Cleveland, and at East Howdon in North Tyneside.

Juliet Sychrava examines the debate over proposals to build toxic incinerators in the north of England

Public sentiment waiting to erupt

They would cost £20m each and have a toxic waste capacity of 26,500 tonnes and 23,100 tonnes a year respectively.

A third, from Cory Environmental, the waste management company which is a division of the Ocean group, calls for a 30,000-tonne toxic waste incinerator to be built at Seal Sands, in the industrial Teeside area that houses ICI, Shell UK and British Steel. Cory expects to invest around £20m.

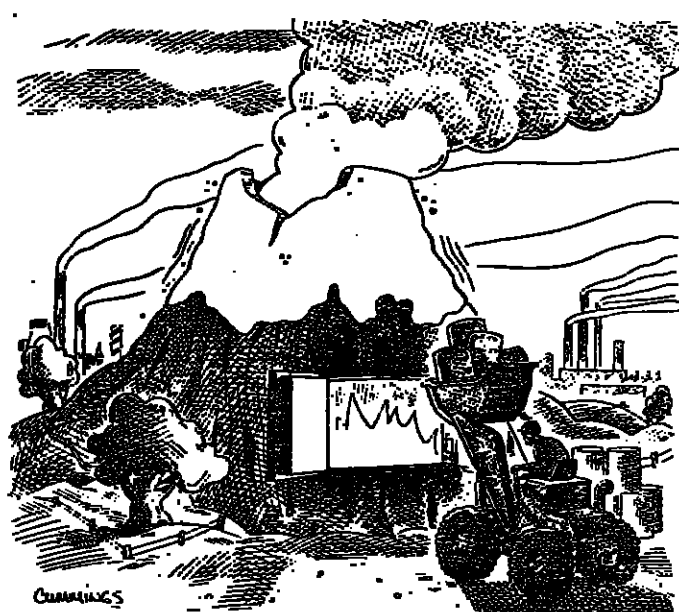
All three have been rejected by the planning authorities and opposed by local councils who say they are a health and safety risk. Cleveland, whose county councillor Paul Harford recently described the proposed incinerator as being as useful as a hole in the head, also views it as a threat to other regional industries, such as nearby food manufacturer Rankin Hovis McDougall, which also opposes the proposal.

The main risk associated with toxic waste incinerators is the emission of polychlorinated biphenyls or PCBs, notoriously tenacious and hazardous chemicals, and dioxins, the gases PCBs emit when burned. In addition, toxic ash residue dispersed from the incinerator's chimneys can pollute the surrounding land.

Evidence is piling up on both sides of the case. Cory Environmental and Northumbrian Water claim that the technology used in the new incinerators is so advanced that emissions will be negligible.

"What we are proposing is it were built tomorrow would be the best in the world," says Daryl Hill, industrial marketing manager at Cory Environmental. The key, he explains, is that the new plant has sophisticated systems for cleaning gases before it emits them, as well as the ability to take in increasingly complex kinds of waste.

David Boyd, environmental adviser for the National Association of Waste Disposal Contractors (NAWDC), believes public anxiety is often based on misunderstanding. "You



can trot out any Mickey Mouse scientist to claim dioxins are formed in the incinerators. But what people don't understand is that there are more dioxins in your garden bonfire than there are in the incinerators. Because dioxins form within a certain temperature range, he explains, the new high temperature incinerators which stop them forming are safer than ordinary incinerators.

But Lewis Routledge, a lecturer in food contamination at Newcastle College and member of the Tyneside Against Toxins protest group, has evidence for the other side. He cites a recent study of food contamination around four UK incinerators by the Ministry of Agriculture and Fisheries that shows half a pint of milk already contains three times the acceptable level of dioxin intake for a child. He claims the new incinerators make no fundamental improvement on old technology. "They would need to improve their emissions 1,000 fold to make a difference," he says, pointing out that dioxin intake levels

around incinerators in Germany are 50 per cent higher than the levels considered acceptable in the UK.

Environmental concerns aside, whether the incinerators are necessary - for the region, or for the nation - is a vexed issue. Local councils argue that there is not enough toxic waste to justify new capacity. Tyne and Wear Development Corporation says it produces less than 40 per cent of the proposed capacity at East Howdon. Cleveland puts its current incinerator requirement at 3,605 tonnes, compared with the 30,000 tonnes Cory plans to build.

At the moment Cleveland council disposes of more than 200,000 tonnes of waste in total by dumping it at sea, and exporting it elsewhere in the UK. The government's white paper on the environment upholds the principle of self-sufficiency in waste disposal, but most observers feel toxic waste is one area where it is inapplicable, since it is impracticable for each region to have a toxic waste incinerator.

How much national capacity is needed is also debatable. The UK already imports EC waste, though exactly how much is a controversial question.

The anti-incinerator lobby argues that the UK is in over-capacity. Building more incinerators will only encourage further imports, particularly as this is a lucrative business - the cost of disposing of a tonne of hazardous waste can be more than £2,000.

Both Cory and Northumbrian Water offer guarantees that they will not import waste but these are viewed with some cynicism by their opponents. "They probably wouldn't," says Gerard Parr, chairman of Stinc. "But how do you trace imported waste that is split and transferred at Manchester to Cleveland?"

The main plank of the waste management industry's case is the claim that new legislation will compel industry to switch to incineration. New EC directives, which will restrict the classes of waste that can be dumped in landfills and broaden the definition of toxic waste, are being drafted.

Whether that means more incinerators is uncertain - Stinc research shows that planned in-house facilities at chemical plants will deal adequately with the problem, leaving only 1,500 tonnes a year for incineration by 1992. "We have assurances from all the big companies that they won't need the incinerators," says Sparke. "And small or medium companies can't afford to use it at around £1,000 per tonne compared with a landfill cost of £15 per tonne."

The waste management industry believes companies will have no option but to foot the bill as they have in Europe. Many countries already have considerable commitment to incineration: Germany has more than 700,000 tonnes of capacity compared with the UK's 140,000 or so (including planned expansions). The Netherlands, meanwhile, plans to double its capacity.

But for Jack Sparke more incineration capacity will only encourage the UK to clean up Europe's waste. He is backed by Pete Widdlinski, the co-ordinator of Communities Against Toxics, a national protest group. "Incineration is old technology made to look brand new, with nice-looking new buildings. But it isn't a solution. What we need is clean production, and if the UK doesn't develop the clean techniques used in the US and elsewhere, we'll lose out."

McDonald's junks plastic packaging

By Karen Zagor

If most environmentalists have their way polystyrene foam packaging will soon become a relic of the plastic age - a memento of the days when convenience took priority over the environment.

The musings are good. Last week McDonald's, the US hamburger chain, said it would phase out its use of polystyrene packaging, starting with its hamburger containers.

The move was a direct response to consumer pressure: McDonald's had planned to recycle the polystyrene and still maintains that foam packaging is environmentally sound. But according to Ed Rensl, president of McDonald's US operations: "Our customers just don't feel good about it. So we're changing."

The move was hailed as a victory for an unusual collaboration between the big multinational business and the Environmental Defense Fund, a non-profit public interest group which claims to have instigated a US ban on the pesticide DDT.

The group first approached McDonald's in July 1989. A year later the two organisations agreed to study ways of reducing the solid waste generated by McDonald's 11,000 restaurants around the world. "If we're going to move America, we have to move corporate America," said Frederic Krupp, executive director of the fund.

When the fund recently objected to McDonald's plans to recycle polystyrene, the company reacted with a paper packaging alternative. Within a month, McDonald's expects to launch its interim packaging plan using a combination of wax-coated and clay-coated papers and a novel quilted paper package which uses "dead airspace" to trap heat.

The fund is now trying to persuade McDonald's to use a cellulose lining for its quilted case instead of polyethylene, since the polyethylene component would make the bags difficult to compost.

Although the company has not come up with a final plan for its packaging, it expects to use very thin gauge paper with about 90 per cent less volume than the plastic foam.

Whether McDonald's decision will have a significant

impact on reducing waste in the nation's landfills remains to be seen. Nevertheless, other fast food chains are becoming more sensitive to consumer concerns about packaging.

According to Det Wiler, a spokesman for Kentucky Fried Chicken, waste from fast food is only a small part of landfill rubbish. "But it tends to be visible because it carries the restaurant's name," said a company spokesman. The company uses recycled material in napkins and is looking at ways to compost its packaging.

Burger King claims to have used paper packaging since the chain first opened in 1954. "Paper is biodegradable, recyclable and compostable," said a company spokesman. However, according to some environmentalists Burger King uses a thick paper board which is probably no better for the environment than polystyrene.

Among the charges levelled against polystyrene is that the production process generates a number of pollutants. But "people are blind to the danger of paper," said Jan Beyea, a senior scientist at the National Audubon Society. Paper production damages forests. Sulfur is an unwanted by-product of the coal burned to produce paper and the chemicals used in bleaching paper are toxic.

According to Beyea, some of McDonald's recent environmental initiatives are more important than the move away from polystyrene. These include a plan to invest \$100m a year in a recycling programme and the company's use of brown paper bags in its restaurants.

One of the side-effects of McDonald's decision to abandon foam packaging is the damage it may do to polystyrene recycling programmes. "Most plastics are inherently recyclable and it's a crime we don't recycle more of them," said Beyea.

"It's unfortunate that this happened just when we were gearing up in recycling," said a spokeswoman for Amoco Foam Products, which supplies foam packaging to McDonald's. Amoco plans to go ahead with its recycling programme using products from school and hospital cafeterias and other fast food sources.

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## TELEVISION

## Into the spider's larder...

Among those who can take responsibility for making today's younger generation care more about the environment is the television series which we share this planet, David Attenborough must have a stronger claim than almost anyone. For nearly 40 years, from *200 Quest* in the 1950s to *The Trials of Life* today, he has been presenting television series which explain the natural world without destroying its magic. Cascaded with honours and understandably the subject of one of Victoria Wood's best sketches ("I hear he's such a nice man if you meet him in real life" - indeed he is) Attenborough is surely one of the best broadcasters in any subject area that we have ever seen.

Of course his subject has turned out to be ideally suited to television. There is something almost mystical about the way that the television medium turned up at the very time that some sort of vivid mass warning of the dangers to show that mankind was endangering the future of the earth with pollution, over population, and nuclear bombs. But however appropriate television technology may be for showing us the tattered guilelessness of the effects of acid rain, there is no substitute for a truly outstanding presenter, and Attenborough is clearly one of the great naturals.

That said, he is the first to heap credit for the achievements of series such as *The Trials of Life* on the cameramen, and in the first six episodes of this 12-part, 54m series those achievements have been as astounding as any we have ever seen. That is saying a lot when you remember such historic sequences as the polar bears in *Kingdom of the Ice Bear*, the storks filmed from a model aeroplane over the Bosphorus, and the unforgettable film of Attenborough socialising with gorillas.

This time, in Programme 4, we watched an amazing and terrifying scene showing killer whales charging into the shallows of a Patagonian beach, like vast roving submarines, to snatch sea lion pups. Just when you thought it could not become any more electrifying you found yourself somehow - only cameramen Mike DeGruy and Paul Atkins know how - joining the whales to storm into the beach, surrounded by fellow killers. The film ended with a poignant coda as one whale took its catch, still alive, out to sea and played with it, tossing it in the air and catching it, like a cat with a mouse.

We have flown with frigate birds to watch as they harry tropic birds to make them drop their fish dinners, and seen a weaver bird destroying its beautifully woven grass nest because it had turned brown before a mate had been attracted. How long did the cameraman have to wait for that? He has followed a tiny spider as it raided the meat rack of a much larger spider, and seen a hermit crab trading up from a small des. res. to a medium sized detached home. Goodness knows where the cameraman was. In tonight's programme Attenborough stays out in a tropical downpour to show us tiny tent-making bats under the palm leaf, and craves right into the termite mound to explain the air conditioning system... speaking, of course, to a film crew already in situ.

In the second most astonishing sequence of this series so far, a sweating Attenborough pelted through the jungle on foot, explaining between gasps

how chimpanzees co-operate to hunt, catch, and consume a colobus monkey. Thanks to Mike Richards' superb camerawork we saw all the essential moments in that hunt, and most viewers would probably swear on a stack of Bibles that Attenborough was definitely up there with the chimps as the hunt proceeded. Perhaps he was.

The interesting thing is that he need not have been: we saw two shots which combined Attenborough and resting chimpanzees in the background (eating monkey meat) who knows, they were much too far away to see) and one shot with Attenborough running while a fleeting black shape - a hunting chimp? a small game warden in a black mac? - disappeared stage left.

David Attenborough

All the other interest shots, showing charging chimps and meat-eating chimps, excluded Attenborough. Of course his voice, panting, was heard over these shots, and the sound of slaving chimps and jungle birds was heard over the pictures of Attenborough. But sound can be laid across any picture.

Perhaps the whole thing was pukka, or perhaps it was just slightly cheated because they could not get Attenborough and the meat-eating in close enough proximity to show them on screen together. Perhaps it was a major fiction designed to convey an important truth. Whichever it was, maybe the time has come when we should be given more information about programmes such as this. Heaven forbid that Attenborough should go over to those pseudo-wildlife films which celebrate the Martini lifestyles of the programme makers. (You know: "It looked as though Sandy and I were marooned there for the winter with only one case of Krug and a Landrover apiece.")

But could we not have a 13th episode to tell us whether the calluna hummingbird was shown in slo-mo to allow us to see the wing detail; whether the tent caterpillar shots were speeded up; where the skunk came from which so accommodated Attenborough's feet as the camera panned down (out of a cardboard carton by any chance? nothing wrong with that, but could we not be allowed to know?) and of course the truth about the chimps.

When he gave the first ever Huxley Memorial Lecture three years ago Attenborough's subject was the degree of contrivance necessary in the making of wildlife films. It was a splendidly informative lecture, with one gaff or another blown every few minutes. He ended by reminding us that there has never

been a less truthful saying than that the camera cannot lie. Apply those thoughts constructively to a 13th episode and the result would probably be as fascinating as the famous award winning documentary *The Making of A Natural History Film*.

As the spectre of money pouring into the great black hole marked "BSB" fades, to be replaced by images of long term profits from the likely success of Sky TV (oh all right, British Sky Broadcasting, but within weeks we shall be calling it plain old Sky) those of us holding Pearson share options - Pearson, owners of the FT, being one of BSB's chief backers - should presumably be smiling with relief. As viewers however, we have reason to be spitting with rage.

The wildly expensive satellite adventure has resulted in just two benefits for the intelligently discriminating viewer: the 24-hour Sky News network, and BSB's magnificent weekend arts programmes on the Now channel. Those arts programmes, it seems, are now to be scrapped. Gary Davey, deputy managing director of Sky (who, like the managing director, Sam Chisholm, brought in from Australia by Rupert Murdoch) is reported to have said that he never understood the concept of the Now channel and there was "unlikely to be a real need for it". So bye bye.

For the moment Sky News stays, though with cuts in its already slimline staff and budget. But now that Mr Murdoch has achieved the single satellite operation that he always wanted, how long will Sky News last? Perhaps its high prestige among A and B viewers will help sustain it, but for how long if its ratings remain below those of the movie and sport channels?

At least viewers have been spared the difficulty of choosing between incompatible satellite systems. But, now that we are reduced to the single operation with five channels (two for movies, one each for rock music, news, sport and entertainment) what reasons are there for spending £200 on installing satellite equipment if it is movies you want to watch and then from video when you want to get onto the satellite, and since you now have to pay for every Sky movie you watch and more than 60 per cent of homes have VCRs, the advantages of satellite are hard to see. The 24-hour rock video channel, MTV, is good for bored 8-year-olds, and once every few months there is a big sporting event which you can see earlier on the satellite than on terrestrial television. The general entertainment channel makes ITV seem like god's gift to intellectuals. So satellite television begins to look like a service for the not very bright.

Those with the greatest grievances are surely the few tens of thousands of viewers who have paid 400 for the supposedly superior BSB service. They are now being given to understand that the notion of the Independent Broadcasting Authority protecting the interest of the viewer is a lot of old eyewash, and are told that they will be given a Sky dish and Sky's inferior service in place of what they paid for. Tough luck, caveat emptor, and all that. How fortunate we are to have such a good terrestrial television service.

Christopher Dunkley

## ARTS

## Bajazet

ALMEIDA THEATRE, ISLINGTON

The much parroted belief that Corneille and Racine are unplayable on the English stage has been energetically challenged over the last few years, most notably at the Old Vic under Jonathan Miller's direction. But the bold new translations and idiomatic design schemes that have invigorated Corneille's *Liar* and *Theatrical Illusion* left Racine's *Andromache* gasping within the skewed horizons of what Miller rather grandiosely termed a "Seventeenth century elsewhere".

Peter Eyre, who appeared as Pyrrhus in Miller's production, directs *Bajazet* on a contrastingly flat, unencumbered stage backed, in Chloé Obolensky's design, by a wall of fencing sticks, geometrically arranged to suggest elegance and symmetry but also the imprisonment within which the tragedy plays itself out.

It is a setting that neatly mirrors the austerity of the action. Interned in the harem of Byzantium by a brother who would have him killed, Prince Bajazet finds himself faced with an ultimatum: if he agrees to marry his brother's all-powerful concubine, Roxane, he can seize power; if not, he dies. In the path of any ambition he might harbour lies his love for his childhood sweetheart Atalide.

Transmitted in 1672, two years after *Bajazet* and five years before *Phèdre*, it is a tragedy of emasculation which, despite its title, has two heroines rather than a hero. Bajazet himself is a schematically listless figure, who is persuaded by his lover to lie rather than die, and who eventually does both.

He is portrayed by Martin Wenner as a tousle-haired pretty boy whose gown looks just that little bit too big. A helpless romantic, he is incriminated by an ardent love missive and hangs his head in speechless embarrassment when challenged by the inquisitorial Roxane.

The tragic trajectory is straight and clean. Typically, there is a disquieting absence of the variety of perspective that one finds in English tragedy. Racine's servants serve the plot; the only other man of note is the scheming vizier Acomat, who Terence Rigby makes into a self-interested old fool rather than the putative machiavel he might be.

The two women consequently appear fired by fantasy rather than the reality of male power or appeal. Suzanne Bertish's Roxane starts out as a sexually knowing harpy whose initial proposal to Bajazet is expertly framed by tilt of the chin and coquettish over-shoulder glance - a scene mirrored in the tearful fury provoked by her realisation of betrayal. It is a performance of gathering power, which is held in a fine balance by the poise of Olwen Fouéré whose Atalide has an ageless grace and musicality, even as she plays with the dimming sexual jealousy and mistrust that Racine has thrown across her path.

Alan Hollinghurst's translation, lightly rhythmic, has a formality that is picked up in the gestural grandiloquence of a production which takes its audience effortlessly elsewhere.

Claire Armitstead



Performance of power: Suzanne Bertish

## San Francisco Ballet's 'Sleeping Beauty'

KENNEDY CENTER, WASHINGTON

The San Francisco Ballet, America's oldest ballet company, has a new ballerina - a real one, a young one, Elizabeth Lascavio, 21 years old, takes to the stage with a marvellously natural sense of address. She is absolutely clear to which other characters in a ballet she is presenting a gesture or a step; or whether it is for us, her audience, or for herself. I saw her as Princess Aurora in the company's new production of *The Sleeping Beauty*. Though it was only her third performance, hers was an account that brought the ballet to life: the best omen in this, the ballet's centenary year.

She isn't yet a princess. Her head and eyes, especially in the exuberant dances of Act One, are too busy, too eager. But there's nothing in her dancing to suggest she can't discover that kind of poise. She has serene, sure aplomb; light, easy attack; and radiant, elegant line.

What beauty of style she has - Luc

cious descents from pointe through the foot, exciting dynamic variety within firm, sure phrases - and what an overall sense of the role.

I hope to see her again; she might be a marvellous guest at Covent Garden. But who knows what's to come? One doesn't applaud a true ballerina like this as a promise of things that might yet happen. She's already marvellous right now.

San Francisco Ballet's artistic director, Helgi Tomasson (the Icelandic-born, Danish-trained, former star of New York City Ballet), is now in his sixth season there. The *Beauty* production is his work, and is a sequel to his 1988 *Swan Lake*. Both stagings are designed by the Danish designer Jacob Worsaae, both involve some coaching by the former Kirov artist and teacher Irina Jacobson (who also contributed to our Royal Ballet's 1987 *Swan Lake*) and both are obviously misconceived. The music of Swan Lake

is set in mediaeval Germany, and that of *The Sleeping Beauty* in baroque Versailles, but Tomasson and Worsaae transferred the former to eighteenth-century France and the latter to the Russia of Peter and Catherine the Great. So this *Beauty* is set against the onion domes of old Russia, and its court and royalty start in long Russian fur robes. This never convinces. The courtiers patter around in all too New World a way, and there are no Old Russian beards.

Much of the Petipa choreography, however, has been well instated (partly from Kirov, partly from Royal British, tradition). Tomasson's supplementary dances are discreet. I saw two performances. Lascavio's Prince, Mikko Nissinen, was startlingly reminiscent of Tomasson himself - suave, courteous - but without Tomasson's own miraculous fluency and assurance. The other Aurora, Sabina Allemann, had her own heavy authority and, like Lascavio, had

been handsomely prepared in unprintable details of the role - more so than most Auroras at Covent Garden today. But she was too coarse of heft for the part, and her sense of the role is more clearly that of an actress than that of a dancer. Her Prince was Ashley Wheeler, a former Royal Ballet dancer, tall, handsome but too anonymous. (A guest Prince in a previous performance had been the Royal Ballet's Bruno Samana.)

The other San Francisco dancers appear well-schooled and acutely musical in timing (more so than in phrasing). But demure and unmemorable, too. These dancers hardly seem members of America's oldest company - they seem to belong to a young institution, tentatively edging their way into what may one day prove to be the San Francisco style. They should look to Lascavio.

Alastair Macaulay



Miranda Richardson as Etta

## Etta Jenks

ROYAL COURT THEATRE

The American invasion of the London stage continues apace. In the last six weeks, about half the West End openings reviewed here have been of American origin: *Fences*, *Love Letters*, *Into the Woods*, *Other People's Money* and *The Mystery of Irma Vep*, not to speak of the stand-up comics at the Queens. Etta Jenks, by the American playwright Marianne Meyer, is the latest. "Invasion" is perhaps too strong a word. It is more a random incursion, for the American works currently on display have very little in common. The only conclusion that one could possibly draw is that there must be a shortage of British plays.

Etta Jenks is neither very good nor very bad. I rather liked it but could not possibly recommend it categorically to anyone not at least mildly hooked on theatre. It is about how many aspiring starlets now try to get into straight movies by appearing first in pornographic videos, and how the porno business is run. "It's

a service industry," says one of the characters early on. And again: "Many of our finest stars made their debut in a skinflint."

The secret apparently is to get into porno early because the audience is so vast. Then you have to make a decision: either get out as quickly as you got in and go for the straight stuff, or stay a bit longer and make a great deal of money - enough to live on for the rest of your life. But there is another way: that is to become a porno video talent scout.

Etta is a poor girl who wants to make it to the top of Hollywood. She is sucked into porno and, recognising the profitable business that it is, settles for scouting, then running a recruiting business of her own.

There are some slightly disturbing echoes of recent news stories. A girl who first objects "to going to make a video in Mexico" because you have to do it with a donkey, succumbs, then disappears. The strong implication is that she has been sacrificed as part of the video-making.

That is one reason not to recommend the play to everyone. Another is that it is uneven: there is the rather pointless role of two black twin brothers, one deaf, the other blind. But Miranda Richardson's performance of Etta, as she grows in self-confidence and affluence, is very good indeed and the play is extraordinarily briskly directed by Max Stafford-Clark.

Malcolm Rutherford

## Winterreise

QUEEN ELIZABETH HALL

There are 24 songs in Schubert's *Winterreise*, which is a dogged, willful journey to nowhere, to extinction. On Monday the tenor Peter Schreier exhibited each song with exquisite art, made each a lesson in selfless interpretation and phrase-control. If there was any sense of a journey, it was to be gleaned only from the music itself. Dramatising the suicidal protagonist in any further way would be quite foreign to Schreier, whose platform persona is anyhow that of the cultivated vice-president of some prosperous Austrian firm.

Still, one missed a real journey; and that was largely because Schreier's accompanist, Walter Olbertz, lent no positive hand. In any serious account of *Winterreise*, one can hear a great deal about how the cycle is going to be read from what the pianist does with the first song, "Gute Nacht" - marked "in gehender Bewegung" - will it be a light, melancholy stride, or a disheartened trudge? (There are dozens of alternatives). But Olbertz wasn't *gehend* anywhere at all; the faint pulse failed while he lingered over so slightly but fatally over conventional nuances. Once the voice entered it became clear that Olbertz aimed only to provide discreet self-effacing support for his singer.

For all Schreier's refined skill and insight, *Winterreise* deserves better than a vanishing pianist, even one of the most discreet and mostly unimpeachable taste. (I deplored the gratuitous "rit." that he made, as if by reflex, at the end of every song.) Instead of freezing slowly, gently and

inexorably, the journey was a frieze from the start.

Denied anything much like a cumulative experience, one could only admire the superbly etched images as they came one by one. It would be interesting to know why Schreier prefers the earlier version of "Rast", with its blander last lines; and why, in certain songs, he reads Schubert's *appoggiatura* - shorthand for dissonant suspended notes - in a smooth way that surely lacks historical excuse. The only expressive idiosyncrasy in his singing was a sudden, abrasive harshness on certain words: kalt, for example, and *Kröte* and *Kröte*.

That may have been a passing asperity and quite understandable if so. Schreier had to weather not only the usual revolting barrage of English social coughs whenever he paused between songs (and by local standards this was a *rapid* audience! - in Germany they order things differently), but, ghastly, uncontrollable hacking, during every third song or so, from an elderly gentleman seated near the front. Though there was a clear-cut case for excusing (some might have thought it a clear case for excusing) when Schreier took a long, meaningful pause after a particularly damaging volley, he had no effect. If there were such a thing as telepathy, the collective will of the hall, for *Lieder* recitals, at least, perhaps there should be an accusatory spotlight at the ready.

David Murray

## ARTS GUIDE

## THEATRE AND MUSIC

## London

**Aspects of Love** (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber opera derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn. A probable, but unimpeachable, hit (835 882). **Absurd Person Singular** (Whitehall). Revival of early Ayckbourn comedy, directed by the master himself, about three couples at Christmas in three kitchens over three years. Moira Redmond, Richard Kane and Lavinia Bertram on fine form in a production which confirms Webber's early bleakness (071 887 1119). Extended until January **Man of the Moment** (Globe). Nigel Planer and Gareth Hunt in another Alan Ayckbourn play, this time about media manipulation (437 3677). **Into the Woods** (Phoenix). Julia McKenzie shines as the witch in Stephen Sondheim's compendium of fairy tales. The title song is more memorable than a story-line that descends into caricature and chaos as the characters' dreams turn sour. (887 1004) **Cats** (New London). The formula of Elton words, Lloyd Webber music and feline dance has made this Britain's longest running musical. (405 0072) **Back Mass** in 8 minor. London Bach Orchestra (Mon). Barbican Hall (071-638 8891). **Leipzig Gewandhaus Orchestra** conducted by Kurt Masur with Alfred Brendel playing piano in Brahms' third symphony and first piano concerto in D minor (Thur) (071-638 8891). Barbican Hall.

**London Symphony Orchestra** conducted by Claudio Bernardini perform Beethoven, Sibelius and Rossini. (Wed). Barbican Hall. **British String Quartet** play Tippett and Beethoven (Op 130 with Gross Fuge) (Wed). Queen Elizabeth Hall. (828 3002). **Royal Philharmonic** conducted by Vladimir Ashkenazy: Berg, Debussy, Scriabin (Thur). Royal Festival Hall. **Leipzig Gewandhaus** conducted by Kurt Masur with Alfred Brendel playing piano in Brahms' third symphony and first piano concerto in D minor (Thur) (071-638 8891). Barbican Hall.

**Paris** **Orchestre Colonne** conducted by Bertrand de Billy, Lazar Berman (piano): Tchaikovsky. (Mon). Salle Pleyel (453 8873). **Maria Jose Pires**, piano, Augustin Dumay, violin: Beethoven (Tue). Theatre des Champs Elysees (4720 9397). **Vladimir Fyodorov**, piano: Debussy, Ravel (Tue) Salle Pleyel (453 8873). **Orchestre de Paris** conducted by Claudio Bernardini: Schubert (Wed, Thur) Salle Pleyel (453 8873). **Orchestre National de France** conducted by Neeme Järvi. Gidon Kremer, violin: Pärt, Schnittke, Sibelius (Thur). Theatre des Champs Elysees (4720 9397). **Mikhail Pletner**: Tchaikovsky, Musorgsky (Thur). Salle Gaveau (453 8891).

## Amsterdam

**The Glass Menagerie** by Tennessee Williams performed by the Stalhouderij Theatre Company and directed by Nancy Gobor. Stalhouderij (1st Bloemdwarsstraat 4) (not Mon or Tue) (282 282). **Netherlands Philharmonic** with Eilene Rodriguez (piano), Bart van den Hurk conducting. Mendelssohn, Beethoven, Schumann. Concertgebouw (Tue). **Shostakovich Trio**, Rachmaninov, Arensky, Shostakovich. Concertgebouw (Tue). **Isaac Stern** (violin), Yo-Yo Ma (cello) and Emanuel Ax (piano). Beethoven, Brahms, Schubert. Concertgebouw (Thur) (713 345). **Royal Concertgebouw Orchestra** conducted by Jakov Kreibberg, with Karine Georgian (cello). Penderecki, Stravinsky. Concertgebouw (Thur) (713 345). **Netherlands Chamber Orchestra** with Henrich Schiff and Herman Stegenga (cello), Vivian Lutoski, Beethoven. Beethoven, Schumann, Liszt (Tue) Salle Gaveau (453 8891).

**Utrecht** **Kristian Zimmerman** (piano). Debussy, Beethoven (Mon). **Amsterdam Baroque Orchestra** conducted by Ton Koopman. Mozart, Beethoven (Tue).

**Brussels** **New Belgian Chamber Orchestra** conducted by Jan Caeyers with Luc Devos (piano). Haydn, Men-

delssohn, Mozart. Palais des Beaux-Arts (Wed).

**Frankfurt** **Frankfurt Radio Orchestra** under Elio Boncompagni with tenor Jose Carreras (Sat). Alte Oper. **Juliard Quartet** plays Bach (Sun). Alte Oper. **Miles Davis European Tour 1990** (Tues). Alte Oper.

**Berlin** **Berlin Philharmonic Orchestra** conducted by Zubin Mehta with Eva Marton, Brigitte Fassbaender, Heinz Zednik, Bernd Weik and Keith Lewis. Strauss's *Salmé* in a concert version (Tues, Thur). Philharmonie.

**Madrid** **Orchestra Della Scala** conducted by Carlo Maria Giulini. Beethoven programme (Mon). Auditorio Nacional de Música (357 01 00).

**Milan** **Vienna Philharmonic** conducted by Claudio Abbado. Mozart and Schubert. Teatro Alla Scala (80 51 26).

**Rome** **Canadian Brass Orchestra** with John Nesching conducting Schumann, Villa-Lobos and Dvorak (Mon, Tues). Auditorium in Via Della Conciliazione (6541044). **Kristian Zimmerman** (piano). Schoenberg, Mendelssohn (Mon). Carnegie Hall (237 7400).

## New York

**Falsettoland** (Lucille Lortel). It will be known as the musical about AIDS first hitting New York but it goes much further than that, showing the effect on a larger circle of people, who include a boy having a Bar Mitzvah and his parents, all three of them (324 5782). **Grand Hotel** (Martin Beck). Tommy Tune, Broadway's present musical director, directs this remake of the Garbo film to shake the bones of this inert depiction of lives cross-crossing in an elegant, but somewhat random setting (248 0102). **Cats** (Winter Garden). Still a sell-out. Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6282). **Les Misérables** (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200). **Phantom of the Opera** (Majestic). Stuffed with Maria Bjornson's glided sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this transfer from London (238 6350). **Cryer** (St James). The 30th anniversary production is a reminder of the heyday of the American musical with memorable tune after memorable tune, as well as a forceful plot about the ambitious stage mother who encourages her daughter even into burlesque (246 0102). **Marlboro Music Festival**. Mozart, Schoenberg, Mendelssohn (Mon). Carnegie Hall (237 7400).

**Musica Sacra** conducted by Richard and Valérie Fauré. Bach (Wed). Alice Tully Hall, Lincoln Center (874 2424).

**Washington** **National Symphony** conducted by Mstislav Rostropovich with James Galway (flute), Toshiko Kohn (flute), Weber, Khachaturian, Frescobaldi, Cimarosa. Tchaikovsky (Tue); Mstislav Rostropovich conducting with William Stock (violin). Nicolai, Rosenman (world premiere). Beethoven (Thur). Concert Hall, Kennedy Center (487 4600).

**Chicago** **Chicago Symphony Orchestra** conducted by Leonard Slatkin with Chicago Symphony Chorus. Corigliano, Piston, Rorem (world premiere) (Thur). Orchestra Hall (435 3322).

**Tokyo** **Kabuki**. Performances at Kabuki-za centre around a name-tagging ceremony for the actor Senjaku, who follows in his father's footsteps to become Ganjiro III. Both performances (11am, 4.30pm) are mixed programmes, combining drama, spectacle, song and dance. Earphone guide in English and English-language programme (541 3313). **Tokyo International Theatre Festival**. Festures groups from South Korea, the Netherlands, India, Malaysia, France and Italy, as well as Japan. Most performances are at the new Tokyo Art Theatre, an impressive concert hall-theatre-gallery complex in Ikebukuro. (590 1091).

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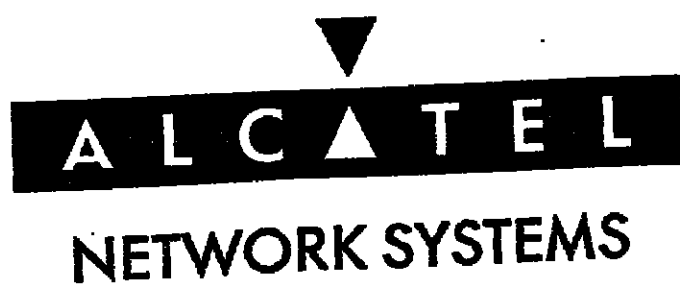
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# FINANCIAL TIMES

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Wednesday November 7 1990

## How best to aid eastern Europe

THE governments of eastern Europe need help. The recent demonstrations against price rises introduced by the Hungarian and Romanian authorities underline their vulnerability. They also confirm the bind in which these fragile democracies find themselves. If they do not introduce reforms, western companies will not invest on the scale that is needed. If they press ahead with reform, they face the possibility of instability.

A study published today by the London-based Centre for Economic Policy Research argues that over a period of 10 years the countries of eastern Europe could double their GDP. This implies an annual growth rate, in income per capita, of about 7 per cent. But because the existing capital stock of eastern Europe is, as the report suggests, worthless, any substantial and sustained growth in GDP would require an investment inflow averaging more than \$100bn per year.

Current indications offer little prospect that capital inflows of anything like this amount will be forthcoming. Western investors remain cautious, waiting for the governments of eastern Europe to set up the legal instruments necessary to attract foreign capital. They seek assurances that profits can be repatriated and that the countries are stable. Even if these conditions are met, there is always the fear that the population will rebel against a liberalisation of prices, a cutback in consumer spending and unemployment. As the CEPR puts it, "the issue is how both investment and consumption needs can be financed."

The growing consensus among the European Community, the Group of 24 industrial countries and the International Monetary Fund is that consumption in eastern Europe should not be overtly subsidised. Western bankers recall the 1970s when credits flowed into eastern Europe. Instead of being used for capital investments, the credits propped up the communist system. That is why the International Bank for Reconstruction and Development and the Group of 24 have linked aid to specific projects. It could go further. A stabilisation fund should be made available as a further safety

valve. The European Community, and the GATT, could be even more practical in their approach.

Existing import barriers affecting eastern Europe's agricultural products could be relaxed. These exports could help finance much-needed imports of machinery and increase production. The CEPR reckons that total grain output by eastern Europe could rise by about 30 per cent, or about 5 per cent of world output. An increase in net agricultural exports from eastern Europe would lead to lower world prices and pressure to reform the Common Agricultural Policy. The countries of eastern Europe should also be encouraged to seek early association with the EC which would bring them within the rules of the EC's competition policy. That would strengthen their governments' commitment to the reform process.

These measures, however, would still not go far enough towards softening the social effects of the reforms. Instead of granting western investors generous tax exemptions - after all, they have abundant cheap and relatively skilled labour at their disposal - governments could siphon off a percentage of the taxes paid by the new enterprises into social welfare funds. These funds could be used for unemployment benefit, retraining and modernising the infrastructure. This would go some way towards diluting the local population's antipathy towards western capital.

Finally, western governments will have to address the issue of debt repayment, compounded by higher oil prices and the Soviet Union's switch to the dollar clearing system with eastern Europe which began on January 1. The Paris Club has offered a moratorium of interest and principal payments falling due until March next year. The debt owed by Hungary and Bulgaria requires urgent attention.

The offer of debt relief, necessary as it will be, should be conditional on the adoption of a determined reform programme. That is why Poland, which has proved the most radical of the East European countries, deserves first place in the queue.

## Short-termism reappraised

THERE IS no such problem as short-termism on the part of investment managers. However, if company executives believe that the stock market is short-termist, they may behave in a short-termist manner, for instance by cutting back on investment and training. It is therefore necessary to educate corporate management in the ways of the capital markets.

This somewhat cheeky riposte from the Institutional Fund Managers' Association to the wave of criticism from industry and Whitehall of allegedly short-termist and irresponsible City attitudes contains much common sense. Taking the form of a paper by Professor Paul Marsh of the London Business School, it analyses the evidence for short-termist behaviour, and rejects the notion that any tendency for inadequate investment by British industry is related to shortcomings in the capital markets.

Although it has now become a hot political issue, the short-termist debate is already out of date. It arose because of the hostile takeover bids that swept the UK and the US in the late 1980s. That surge of deals petered out a year ago but the sense of corporate resentment remains strong.

The arguments should be seen as a part of a basic tension over many decades between the financial markets and industry, which mostly slumbers beneath the surface but occasionally erupts. Previous outbursts have produced the Bolton Report on small company finance and the Wilson Report on the City and Industry. Now the House of Commons Trade and Industry Committee is preparing a report on takeovers.

### Freakish conditions

Yet the takeover boom was generated by freakish capital market conditions in which enormous quantities of bank credit became available to finance corporate deals. The prices of many businesses were inflated to levels well above those which stock market investors considered to be justified on the basis of future flows of earnings and dividends. They were correct in their judgment. In many cases

the companies which paid those prices and the banks which financed them have got into trouble.

An active, even speculative, stock market is not of itself a threat to companies, quite the reverse. A liquid market attracts investors and reduces the cost of capital below that which would apply if shareholders were locked in for long periods. At times in the past the stock markets of Britain and the US have been seen as offering clear advantages in providing risk capital for industry. So they will again. Bank-dominated structures in other countries have sometimes encouraged lethargy.

### View from battle front

Unfortunately the view from the battle front has not been at all clear. Company executives have observed investment analysts and fund managers focusing upon short-term earnings targets and have concluded that company valuation has only a short-term basis. Since finance directors are well aware how easily earnings per share numbers can be manipulated, they can become cynical. But the process of share valuation is more subtle than they realise; executives can rise to quite high positions in companies before they encounter the investment community and its philosophy. For example, companies are regularly taken back when their share prices fall during a boom but rise in a subsequent recession: who is being short-termist in such conditions?

The main cause of friction, an excessive level of takeover activity, is not now a problem, although care will be needed to ensure that it does not recur. The immediate priority must be to repair City-industry relationships, which will involve a considerable investment in communications, on both sides. That may not seem attractive to company managers who regard themselves as the innocent parties.

They should realise that to impose long-termist solutions such as locking in shareholders or depriving them of voting rights would raise the cost of capital; the volume of industrial investment would eventually fall rather than rise.

After nearly a decade of seemingly effortless expansion, Electrolux, the world's leading white goods manufacturer, has hit hard times as the globalised world faces the growing threat of global recession. The company is particularly sensitive to any downturn in consumer demand because of its concentration on producing household goods such as cookers, washing machines and freezers, which are the first items to be cut from domestic budgets in periods of austerity.

"We are living almost from day to day at the moment," admits Mr Anders Scharp, chief executive, in his Stockholm headquarters. The first signs of difficulty for the company were discernible during the second quarter of 1989 but it was only in August, when Electrolux announced a 56 per cent drop in its profits to SKr30m for the second quarter of this year, that the scale of the company's travails became apparent. Its third-quarter figures, due out on Friday November 16, seem likely to add to the gloom which has surrounded Electrolux recently.

"We have been taken by surprise by the volatility of the white goods market," says Mr Leif Johansson, the 39-year-old head of the company's white goods division. "Compared with other industries, a fall in consumer confidence has a much more rapid and adverse effect on our production lines."

There are no signs that Electrolux can expect an upturn at least until 1992. "It is going to take some time for us to improve our position," says Mr Scharp. The onset of a colder climate in the market has come as a shock to some in the company. Between 1984 and 1988 Electrolux enjoyed a period of exceptional growth based primarily on worldwide acquisitions that transformed the Swedish-based company into one of the first genuinely transnational enterprises. Its profits rose impressively year on year to a peak of SKr3,727m in 1988.

Indeed, like the Swiss-Swedish engineering group Asea Brown-Boveri that was created through a merger in the autumn of 1987, Electrolux was hailed as a prototype of the kind of company that could expect to flourish in post-1992 Europe.

The sharp decline of SKr989m to SKr101bn in the first six months of this year stems from several unconnected factors. Just over a quarter of the fall is due to the substantial downturn in sales of the company's wide range of household appliances - especially cookers, dishwashers and electric machines - in the US and Britain.

Mr Scharp says he remains worried about the depressing economic outlook in the US which is the company's single biggest national market and where it enjoys a 17 per cent share of the white goods business. It faces a potentially damaging price war with its main rivals Whirlpool and General Electric and as a result strong pressure on its profit margins.

A steep rise in production costs in Italy, Sweden and Britain has also hit the company's performance. However, demand remains strong in Germany where the company is

## Robert Taylor on the problems at Electrolux as recession bites Freezing outlook on home front

### ELECTROLUX

Profits (SKrtn)

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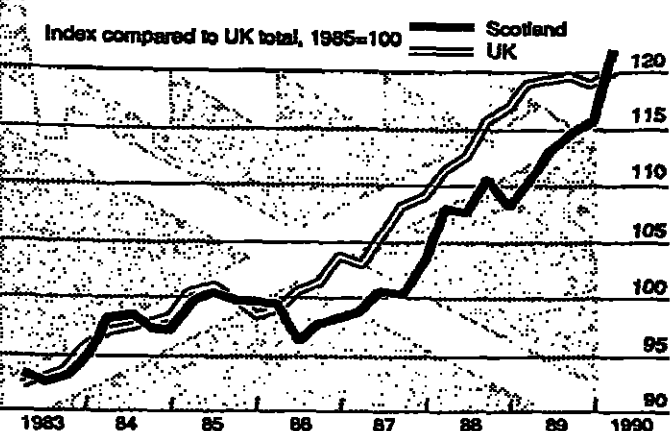
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## The economic pinch has been slow to make itself felt north of the border, writes James Buxton

# Scots feeling less pain

Scottish manufacturing output



Though Aberdeen was worst hit, manufacturers in the central belt suffered too and recovery only began in late 1987.

Since then, the economy has grown fairly strongly and in the first quarter of this year growth in manufacturing output beat that of the UK as a whole for the first time in five years. Scotland depends much less on heavy industry than it did 10 years ago: many people now work in services such as tourism and finance, both of which are expanding. The multinational electronics companies located in Scotland have been doing well and the whisky industry is continuing to re-open inactive distilleries.

Scots have enjoyed some of the prosperity spreading from the south of England without all the pain. House prices in Scotland went up later than in the south; but when high interest rates were imposed they had less effect on individuals because only 50 per cent of Scots are owner occupiers (a figure that has risen from 35 per cent since 1979) and their mortgages are smaller.

That left Scots with higher disposable incomes than many people in southern Britain, an effect boosted in many sectors by national pay bargaining which gives many Scots pay rates geared to the south's higher cost of living.

But now Scotland may be set to follow England into recession as the effect of measures taken to deal with over-heating in the south work their way north, where the economy did not overheat in the first place.

"Recession will affect us up here. It can't do anything else," says Sir Matthew Goodwin, chairman of the UK-wide plant hire company Hewden Stewart. Mr MacCallum speaks of a "real anxiety in Scotland that we could slip into a severe recession". Export markets in continental Europe, he says, have been weakening since mid-summer, the Gulf crisis is worrying and he believes companies are already planning redundancies as a result of Britain's entry to the exchange rate mechanism of the European monetary system.

Mr Marwick hopes that Scottish companies will practise the lessons of survival they learned in the recession of the 1980s ("ruthlessly chasing up payments and all that") and emerge capable of beating less prudent rivals.

Only in Aberdeen and its surrounding area is there a real unhappiness about the present gloom about the future. The oil industry had fully recovered from the 1986 crash by last year; a new wave of offshore developments is taking place benefiting from

the reduction in costs stemming from the shake-out. Unemployment in Aberdeen, which almost touched 10 per cent in 1987, is now down at 2.6 per cent and some companies are facing shortages of labour. Traffic through the airport has gone up by 11 per cent this year, harbour activity by 20 per cent. Average house prices in the city rose by 12 per cent between July and September.

The effect of the new strength of the oil industry is spreading into the central belt of Scotland where engineering companies are winning orders. Mr John Hood, managing director of Weir Pumps, part of the Glasgow-based Weir Group, says orders for pumps from the oil industry are this year running two to three times ahead of projections.

All this reflects forces that were at work before the Gulf crisis broke and the oil price went up, temporarily reaching \$40 a barrel. "The short term impact of the Gulf crisis is nil," says Mr Keith Mair, local director of 3i, the venture capital group. "The companies take a view on oil prices over an oilfield's life. But if they make a lot of money this year, they will have a lot of cash to invest in other areas."

That is the rub. For what enabled the Thatcher government to impose its will so effectively in so short a time? The answer is a political system which concentrates power more centrally than that of any other major representative government.

Does this matter? It does. To pursue a policy of dispersing economic power while at the same time wielding a political machine which radically concentrates power sends conflicting signals to the population. It involves telling them that they must stand on their own feet, but at the same time do nothing which inhibits the action of the nanny-state which formerly looked after them.

Such confusion can confuse the public. Nothing is more important for inducing consistent behaviour than having a clear model for action. But the model which the Thatcher government holds up in one sphere, it denies in another. It calls for a vigorous entrepreneurial culture, but it acquiesces in continuance of a political system founded on tacit assumptions about deference and "knowing your place".

Those politicians who, like Thatcher, rule out basic political reform in the UK are victims of the unwritten constitution. The continuity of parliamentary government has made it difficult for the British political class to acknowledge that the dispersal of power

## The EC and constitutional reform

# Thatcherism's inconsistency

By Larry Siedentop

There is a savage irony about the plight of the Thatcher government. For so many of its problems are self-generated. Above all, its unwillingness to take seriously the question of constitutional reform has led it into self-contradictory domestic policies and impasse with its European partners.

The ideological basis of Thatcherism has been Friedrich von Hayek's argument that a free market system is intrinsically democratic because it disperses power - in contrast to the bureaucratic power and privilege inherent in the command economy espoused by socialists. The Thatcher government has used that insight to destroy a quasi-corporatist economy and a multi-tiered upper-middle-class hegemony in Britain. It did this with speed and comprehensiveness.

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Those politicians who, like Thatcher, rule out basic political reform in the UK are victims of the unwritten constitution. The continuity of parliamentary government has made it difficult for the British political class to acknowledge that the dispersal of power

long associated with the unwritten constitution has given way to its opposite. Social and economic changes have destroyed an earlier aristocratic liberalism - that is, parliaments dominated by a wealthy leisured class benefiting from the deference of much of the population and unwilling to tolerate centralised control over local government. These changes have thus revealed the Achilles' heel of parliamentary sovereignty. For it is now clear that the unwritten constitution took the dispersal of power for granted. Power was dispersed *de facto* but not *de jure*.

That will no longer suffice. Alas, the complacency bred by the unwritten constitution is reinforced by an educational system which suffers from premature specialisation and does not foster interest in the study of economic, social and political change. Education, even at its highest levels, bears

clear, consistent balance between the centre and the periphery in a political union. It is far from obvious that an informal process of growing together will ever secure that balance as well as a formal settlement which includes judicial and other means of defending the interests of component states within the EC. Ultimately, the lack of constitutionally-derived spheres of authority within the EC might well pave the way for German hegemony more surely than any federal arrangement.

The same mixture of constitutional complacency and complacency has left its marks on Mrs Thatcher's domestic policy. Thus, the changes in local government financing have completed a trend towards turning local government into local administration. Her assumption that parliamentary sovereignty is a guarantee of local autonomy may have been plausible more than a century

ago when a powerful aristocracy limited centralisation. Such an assumption is not plausible today. Public debate about how power should be dispersed in the political system is badly needed. That dispersal of power was the overriding pre-occupation of liberal constitutionalists in the 18th and 19th century. Ironically, it was the British constitution which served as the inspiration for constitutional thought from Montesquieu to Tocqueville. Yet it is no accident that the French took the lead. They admired the dispersal of power and free *moeurs* which they found in Britain. They also realised that it was an aristocratic social culture which has all but disappeared here. They may remind the political class of a liberal constitutional tradition which British institutions first inspired, but with which Britain has to its cost lost touch.

The deeper logic of liberalism now requires that the government begin to reform the political machine which it has used to impose its will. The author is a fellow in politics of Keble College, Oxford.

They concluded that France could achieve the same results through constitutional provisions - for France lacked the powerful aristocracy which was the pre-condition of "British liberty". That is why the French took such an interest in the American constitution. They saw it as the work of 18th-century English gentry

adapting their political habits to a more democratic society. In their eyes, American federalism achieved through formal legal means that dispersal of power which in Britain had been the product of an aristocratic society - property and other rights were guaranteed through entrenchment and a new role for the courts rather than by simply relying on the self-interest of a dominant property-owning class, while local autonomy was formally protected against central power.

While not advocating slavish imitation of American federalism, thinkers such as Tocqueville argued that it could provide a helpful model for reforming an over-centralised state. That remains the case. The success of the post-war German constitution, greatly influenced by the American one, suggests as much. In Britain, however, the political class has remained under the sway of the prestige of the unwritten constitution. It has failed to remark that the erosion of class identities, the decline of deference and *de facto* concentration of power have created an emerging constitutional crisis. The vigorous, entrepreneurial society now being called for by all the parties requires a citizenry not only responsive to market forces but confident of its place in the political system.

Indeed, the former depends upon the latter. Self-respect - knowing one's place not in the deferential sense, but in a new, egalitarian sense derived from a rights-based constitution - is a prerequisite for legitimate self-assertion. That is what the unwritten constitution does not provide. Yet Britain can no longer do without it.

Conflicts arising from the UK's relationship with a developing EC may help to restore a constitutional sense which has all but disappeared here. They may remind the political class of a liberal constitutional tradition which British institutions first inspired, but with which Britain has to its cost lost touch.

The deeper logic of liberalism now requires that the government begin to reform the political machine which it has used to impose its will. The author is a fellow in politics of Keble College, Oxford.

## The multinational electronics companies located in Scotland have been doing well

gow-based engineering company, has agreed to reconsider recent plans for ending heavy manufacturing at Renfrew, it is making the first 126 men redundant. British Steel's plant at Ravenscraig is to be reduced to making semi-finished products with the closure next year of its hot strip mill, at the cost of 770 jobs.

What is disappointing about the incipient downturn is that the Scottish economy had been performing relatively well for such a short time. In 1986, while the rest of the UK economy expanded, it suffered a sharp downturn because of the effect of the collapse of the oil price on the North Sea oil industry and its suppliers.

## LETTERS

### Pay and market forces

From Mr D.E. Midgley.  
Sir, Your editorial comment ("Managing the recession," October 31) refers to the importance of responding to pay bargaining in the months ahead, but asserts conventionally that a return to even partial corporatism, with centralised national pay norms, would be impracticable and undesirable.

Our problems are very serious and will only be solved by radical new approaches. Taking into account how market forces actually operate in the job market, one such approach would start by recognising that this market really consists of three very different elements:

- The 40 per cent or so who work in the sheltered private sector where competition is predominantly domestic or even non-existent.
- The 20 per cent or so in the public sector.
- The remaining minority who are unfortunate enough (and one might even say foolish enough) to work in the fiercely competitive, internationally traded sector.

To make progress, I believe we need to discard all the prevailing political dogma and develop different policies for each of these three elements.

Generalised exhortations and threats about high pay awards threatening unemployment lack credibility because in the short term at least they apply hardly at all to the sheltered private sector and not much more to the public sector. How can the crucial internationally traded sector

respond? Financially, it cannot afford to match the increases conceded by the other two sectors, but it must fail to its and the nation's future success.

It is surely time to recognise the extent to which cost-push inflation is generated by pay policies in the sheltered private sector. The seriousness of this is shown by the way in which high salaries are still being used to attract many of our top graduates into financial services rather than into engineering in particular and manufacturing in general.

Most of the jobs in the former are in the sheltered private sector (where all firms in the domestic market tend to act in concert to pass increased pay costs on through higher priced services such as audit fees), whereas most manufacturing jobs are in the internationally traded sector where pay increases need to be covered almost entirely by productivity improvements.

So how about an annual public sector ceiling equivalent to the increase in the retail price index (RPI), and a 100 per cent payroll tax in the sheltered private sector on all pay increases in excess of the change in RPI? This would provide the sort of background necessary for market forces to operate freely and successfully in determining pay levels in the internationally traded sector.

D.E. Midgley,  
Sleepers Hill,  
Winchester, Hampshire

### Tests and what they will show

From Professor H. Goldstein and Ms Alison Wolf.

Sir, Norma Cohen ("MacGregor's back to basics," October 30) tells us that the government hopes its new tests for seven-year-olds will "assess whether it is raising educational standards". How many people, inside or outside government, are aware that these tests can do no such thing? To look at changes over time, one needs comparable information from comparable sources. The government, for all its commitment to "raising standards" is doing nothing to provide such information.

On the contrary, the Assessment of Performance Unit (APU) surveys have been in existence for a number of years and have developed a range of proven and high-quality assessments. They were the source of the recent, widely reported study of changes in children's maths performance. These surveys have now been ended and there are no plans for APU surveys in the future.

Furthermore, England has opted not to participate in the literacy survey of the International Association for the Evaluation of Educational Achievement (IEA). In the past, IEA tests have been administered by the National Foundation for Educational Research. It has withdrawn and at a time of widespread concern over reading standards. Yet nothing has been done by the government to encourage continuing English participation

in the survey.

Instead, we are to have a collection of "standardised assessment tasks" which, as a result of the first round of piloting, are to be drastically pruned, and hastily reassembled. The first round of testing will no doubt lead to further changes. The results of such assessments cannot be compared with any previous APU or international survey results. In any case, the government's system of national testing has not been designed to study the factors associated with success and failure. It therefore can tell us little about what is really happening and why.

On the other hand, both the APU and the IEA studies have collected a wealth of information about the schools the children attend, the actual curriculum they receive, and the characteristics of the teachers. Past analyses of these data have provided us with much of what we know about the context of schooling and its relationship with achievement. It would seem to us that the government has been badly advised on this issue. If it is interested seriously in monitoring achievement it should reconsider its position on support for both the APU and IEA studies.

Harvey Goldstein,  
Professor of statistics,  
Alison Wolf,  
research lecturer,  
Institute of Education,  
University of London,  
20 Bedford Way, WC1

### London now the filthiest city

From Mr James S. Morley.

Sir, Perhaps Messrs McGuinness and Dyer (Letters, October 16) misunderstood the concept of recycling. In England, regardless of cost, it should be to get some of the rubbish off the streets.

For years, the New York subway system has been decaying, and the streets of the city have been covered in trash. Even that is changing and London must now deserve the title of the filthiest city. Calcutta, Detroit and Marseilles must be cleaner.

In our small town, we pay directly for trash removal, which is an incentive to recycle as much as possible. Our local centre takes newspaper, cardboard, computer paper, ferrous metals, aluminium, glass, and car batteries. All fairly heavy, and all recyclable. Our

beer and soda bottles all have a deposit which means that even if we cannot be bothered to turn them in, someone else, perhaps more needy, will. City and state governments are taking tremendous strides to clean up, more and more people are using shopping bags - yes, I mean the bags that can be used time and time again.

There is a cost. But there is a higher cost in the long term to not cleaning up. So come on England, you have sold off nearly all of your high-tech corporations and most of your engineering enterprises; if you want to encourage tourists, at least stop and pick up your rubbish!

James S. Morley,  
president,  
The Guild Inc.,  
580 Danbury Road,  
Ridgefield, Connecticut

### Flaw in the Pepin-Offa moral

From Mr William D.B. Porter.

Sir, Mr Weale's letter ("Then Offa's Pepin," November 5) is fascinating and enlightening. However his conclusion that European monetary union (Emu) would be superior to the English variety in fighting inflation is flawed. A decline of 96 per cent in the value of a currency over 1,000 years, although it sounds drastic, represents an inflation rate of only 33 per cent. That is excellent even by the exacting standards of the Bundesbank which we would implicitly adopt through Emu. Subjected to a 2 per cent inflation rate, currently acceptable to the Bundesbank, the pound would waste to 0.00000002 (one five hundred millionth) of its value over 1,000 years. Electoral sui-

cide as Mrs Thatcher is well aware.

On a less flippant note, I remember Professor Ingo Walter of New York University saying that the reconstruction of the south after the American civil war could have been advanced 50 years in the century after the war by the maintenance of a separate floating currency which would have allowed the south to exploit its relative advantages more efficiently. The real danger of Emu lies in imposing a single currency on an area as diverse as Europe. Yes it will work in the US, but is it, and has it been, optimal?

William D.B. Porter,  
Homat Prince 210,  
2-10-25 Moto-Azabu,  
Mito-Ku, Tokyo



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# FINANCIAL TIMES COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1990  
Wednesday November 7 1990

**OVERSEAS MOVING**  
BY MICHAEL GERSON  
081-446 1300

## INSIDE Traders find it's all quiet on the oil front

Despite signs of the US making final preparations for a military confrontation in the Gulf crisis, crude oil supplies are rising, demand is falling and so are prices. For the moment, traders seem content to return to what they perceive as the basic fundamentals of supply and demand. But an element of boredom, or even fatigue, with the long drawn out run-up to war has blunted the enthusiasm of the oil market. Steven Butler reports. Page 35

## Strict diet for Southwest

Jeffrey Fowler (left) says he knows when to stop eating. The chairman of USM-traded Southwest Resources is referring to his determination not to follow the entrepreneurial example set by his predecessors. "It's no good being a dashing entrepreneur because you just dash out the door," Southwest is fortunate to have survived a series of charismatic chairmen during the 1980s. The share price has plunged and shareholders last received a dividend in 1985. Clay Harris reports. Page 32

## Hard times for Henderson

Persistent uncertainty in international stock markets has hit profits at UK fund management group Henderson Administration during the first half of the year. Despite pressure on earnings, the group has maintained its interim dividend and hopes to make a final payout comparable with last year's. Group deputy chairman and investment director Ben Wray says: "We aren't very optimistic about equity markets in the short term, although we feel that the London market has temporarily found some sort of base." Page 32

## Hotazel sits on cool millions

An Irish geologist, championing a remote South African village surrounded by desert, pronounced the isolated spot 'hot as hell' - and the name has stuck. Hotazel it may be, but it is central to the fortunes of Samancor, a company in the South African Resources group (logo left) and the western world's largest supplier of manganese products. Hotazel sits in the middle of the Kalahari Manganese Field, thought to contain about 80 per cent of the world's land-based manganese reserves. Page 29

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## Chief price changes yesterday

FRANKFURT (DM)		PRINCETON	
Alcoa	402.5	Alcoa	559
Boeing	546.5	Boeing	791
Deutsche Bank	572.5	Deutsche Bank	494.1
Draxton Bank	357	Draxton Bank	978
Hercules	218	Hercules	418
Volvo	341	Volvo	17
NEW YORK (\$)		TOKYO (Yen)	
Alcoa	49.5	Alcoa	791
Boeing	19.5	Boeing	825
Deutsche Bank	19.5	Deutsche Bank	680
Draxton Bank	24.5	Draxton Bank	978
Hercules	88.5	Hercules	418
Volvo	38.5	Volvo	17
Alcoa	512	Alcoa	724

**LONDON (Pence)**

Alcoa	350	Boeing	274
Deutsche Bank	58	Draxton Bank	485
Hercules	102	Volvo	550
Alcoa	230	Boeing	242
Deutsche Bank	183	Draxton Bank	95
Hercules	778	Volvo	11
Alcoa	255	Boeing	312
Deutsche Bank	263	Draxton Bank	50
Hercules	491	Volvo	298
Alcoa	120	Boeing	9

## Debt-laden UK group raises £110m in fresh disposal Cookson sells graphics unit

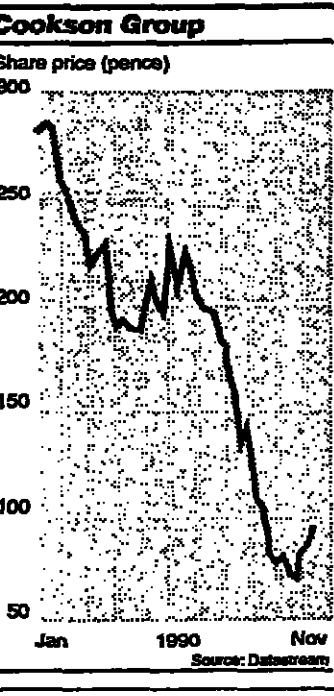
By Clive Cookson in London

COOKSON, the debt-laden UK industrial materials group, is selling its graphics subsidiaries to International Paper of the US for £110m (\$215m). The London financial community gave a much more enthusiastic reception to the graphics disposal - announced yesterday - than to the sale two weeks ago of Cookson's 50 per cent share in Imperial Chemical Industries for £160m. Cookson shares closed last night 10p higher at 92p.

While the Tioxide stake was sold to ICI for less than three times historic earnings, International Paper is paying about 20 times last year's after-tax profits for Cookson Graphic Arts. Cookson Graphic Arts encompasses a variety of businesses acquired during the 1980s, including Frank Horsell, Frendorfer and Advance Offset. Last year they achieved total operating profits of £28m on a turnover of £147m (about 30 per cent in the US and the remainder in the UK and Europe).

Cookson Graphic Arts is a leading manufacturer of lithographic plates, specialised chemicals and processing equipment for the printing industry. Its main factories are in Leeds and St Helens (UK), Munich (Germany), Holyoke (Massachusetts) and Jacksonville (Florida). "The growing influence of competitors who are able to offer an increasingly comprehensive range of graphic arts products led

Cookson to conclude that the future growth prospects of its graphic arts businesses would be limited unless they were combined with a major manufacturer of complementary products," said Mr Ian Butler, who resumed the chairmanship of Cookson after the resignation of Mr Michael Henderson last week. International Paper is the world's largest paper company with sales expected to reach £13bn this year. Its Anitex and Ilford divisions make photo-sensitive papers and films which complement the printing products acquired from Cookson, said Mr John Georges, chairman of International Paper.



Butler: steering the disposals



Jaap van Rijn (left) and Willem Scherpenhuijsen Rom have created a potential "war chest" of several billion guilders

## Dutch cultivate hybrid bloom

The powerful Dutch financial services group that is merging with NMB Postbank is to make wholesale and merchant banking its top priorities for international expansion in the first few years after the merger is completed. Slightly lower down its list of priorities - but important just the same - will be retail banking and insurance.

These goals were outlined yesterday by Mr Jaap van Rijn, chairman of Nat-Ned, the largest Dutch insurer, and Mr Willem Scherpenhuijsen Rom, the chairman of NMB Postbank, the country's third-biggest bank, in their first comments on Monday's surprise news of plans for a full merger.

The combination represents the extension of a rapprochement between banking and insurance which has already emerged in other continental European countries including Scandinavia, Germany and France.

Mr van Rijn, who will lead the new financial services combine until his retirement in mid-1992, said the strategy behind the merger was to "cement" the two partners' positions at home in order to put them in a financially stronger position to grow abroad.

## Ronald van de Krol looks at the implications of the Nat-Ned, NMB merger

Rabobank has taken over Interpolis while VSB, the country's largest savings bank group, has merged with Aneve, the third-ranked insurer. However, the scale of the proposed merger between Nat-Ned and NMB Postbank easily surpasses these deals, creating the Netherlands' first financial "supermarket" for products ranging from life insurance and reinsurance to savings accounts, mortgages and private pension packages.

The new group will have a market capitalisation of nearly £12bn (\$7.18bn) and disclosed net assets of £15.5bn. Its operations will cover 38 countries, and 16,000 of its total 48,500 workforce will be employed abroad. Comparisons on the basis of disclosed net assets would put the merged Nat-Ned/NMB Postbank in the same league as Barclays and National Westminster, the two British clearing banks, Mr van Rijn said.

However, because of traditionally lower multiples on the Amsterdam stock exchange, the new group's market capitalisation was only a third the size of Allianz of Germany, he added. Mr van Rijn compared the merger with trends in other parts of Europe towards "all-finance" and "bancassurance", the German and French jargon, respectively, for financial-service marriages between banks and insurance companies. Nevertheless, the Nat-Ned/NMB Postbank deal is different from other Euro-

pean link-ups, many of which rely on strategic alliances involving cross-shareholdings or substantial minority stakes and some of which are cross-border in nature. Nat-Ned and NMB Postbank said they believed that anything short of a full merger would lead to only fragmentary co-operation. A joint assault on the wider market for financial services could not be done on the basis of contracts, partial agreements or capital injections, NMB Postbank's Mr Scherpenhuijsen Rom said. A corollary to this belief is that a strong home market is necessary as a foundation for foreign growth.

## RWE to take 75% stake in east German power grid

By David Marsh in Essen

RWE, Germany's biggest utility group, has formed plans with two other large west German utilities to take a 75 per cent stake in the east German electricity grid from the beginning of next year. Mr Friedhelm Gieske, RWE chief executive, announced yesterday that the group plans capital spending of DM5bn (\$3.3bn) in east Germany over the next five years out of its total DM30bn capital budget. About 45 per cent of this investment will be in electricity generation.

This spending programme amounts to a sizeable acceleration compared with overall capital spending of DM20bn to DM25bn in the last five years, Mr Gieske said. RWE is confident of generating funds internally and has no plans to go to the capital markets. RWE also increased its dividend from DM9 to DM10 per share for the year ended June 1990 following a rise in net profits to DM1.2bn from DM746m.

Net profits after minority interests rose less sharply to DM784m from DM623m. On the current outlook, RWE - with diversified activities ranging from oil to construction and machinery - says it expects profits for 1990/91 will "not be less" than last year. Group turnover rose 13.5 per cent from DM39.0bn last year to DM44.2bn. Most of the rise was due to first-time consolidation of three subsidiaries - the Hochtief construction company, high-tech concern Lahmeyer International and waste disposal group Nukem. Without these influences, the turnover rise would have been only 3.8 per cent, Mr Gieske said that all six of RWE's operational

## Wartsila unit to buy Allia stake

By Robert Taylor in Stockholm and George Graham in Paris

SANITEC, the bathroom equipment subsidiary of the Finnish industrial company Wartsila, has agreed to acquire 75 per cent of the French Allia group for about FF900m (\$183m). Allia is owned by the French building materials company, Lafarge Coppée. The deal will turn Sanitec into the second-largest bathroom equipment producer in Europe.

Sanitec and Allia between them will have sales of almost FF2bn (\$565m), placing them behind Ideal Standard of the US but ahead of Grohe of Germany in the European sanitary ceramics market. Mr Henrik Eklund, Sanitec's president, said yesterday the Sanitec and Allia production facilities and marketing networks would complement each other without overlapping.

"Our joint activities will strengthen our position both in the European Community area and Scandinavia and provide an excellent potential for further business development and a broadening of the product range," he said. Sanitec will become a big business segment of the Finnish industrial company, Metra, to be formed early next year after the planned merger of Wartsila with the construction group, Lohja. It is already the leading producer of bathroom products in Scandinavia. Allia was formed in 1974 from the merger of three established ceramics companies: France's CEC, Germany's Keramag and Doulton of Britain. Doulton, however, was sold in 1987 to Stalrad. Allia has recovered in the past two years to record an operating

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**FT SURVEYS**



## INTERNATIONAL COMPANIES AND FINANCE

## First Boston 'may never disclose fate of loans'

By Nikki Tait in New York

MR ARCHIBALD COX, the newly-appointed chief executive of First Boston, said yesterday that the US investment house may never disclose officially the fate of its \$1.1bn batch of troubled "bridge" loans.

He declined to discuss a new wave of suggestions that part of the tranche may be taken on by First Boston's ultimate parent, CS Holding, and by Metropolitan Life, the second largest US insurer which owns just under 10 per cent of CS First Boston.

First Boston is the main US operating subsidiary of CS First Boston; CS First Boston, meanwhile, is 44.5 per cent owned by CS Holding, the parent company of Credit Suisse, the large Swiss bank.

Mr Cox reiterated that the investment house expects to "have the problem behind it" by the year-end, but declined to elaborate.

The suggestion that CS Holding might help out is not new; the parent company said in February it was examining the possibility of taking on some of its US subsidiary's bridge loans and, the following month, acquired \$250m of a \$450m bridge loan made to Ohio Mattress.

More recently, there has been talk of the bridge loans being packaged and sold to investors in the private placement market, again with CS Holding probably taking some exposure.

Metropolitan Life also refused to discuss the matter yesterday, saying it had a policy of never commenting on private placement deals.

Other bridges still on First Boston's books include \$420m to American Medical International, \$257m to Federated Department Stores, and \$200m to Jerrico Inc. The original scheme was to replace these temporary loans with more permanent financing - typically issues of junk bonds - but such moves were made impossible when the junk bond market collapsed.

## Aon in 6.4% advance in third quarter

AON Corporation, the Chicago-based insurance group which briefly threatened to derail the merger between Corron & Black and Willis Faber of the UK, yesterday reported a 6.4 per cent advance in this quarter's profits, to \$61.5m after tax, writes Nikki Tait.

Earnings per share increased by 5.7 per cent to 92 cents.

The net profits figure is struck after realised investment gains of \$1.12m, up by one fifth on the figure for the same period a year earlier.

The sharpest advance came on the insurance broking side, which Aon has been building up by acquisitions.

The division advanced to \$6.16m (\$4.48m), on revenues of \$92.2m (\$84.4m). Aon said the improvement was mostly due to the employee benefits and reinsurance intermediary businesses, and to expense management.

It lies at the heart of the Kalahari Manganese Field in the northern Cape. The field is 40km long and thought to contain about 80 per cent of the world's land-based manganese reserves. About 40 per cent of this deposit is owned by Samancor, a company in the South African Gencor group, which is the western world's largest supplier of manganese products as well as of chrome ore and ferrochrome.

Geographically isolated Hotazel may be, but right now it is absolutely central to the fortunes of Samancor. In the year to the end of June, the manganese division produced about 60 per cent of operating profit. A year earlier it was 45 per cent. Mr Hans Smith, managing director, believes virtually all profit will come from manganese in the year to June 1991.

This has by no means always been the case. Traditionally in manganese and chrome, have roughly equal accounts, but since the period 1987 through mid-1989 saw the company make merry on the back of a boom in ferrochrome prices, a function of world stainless

## Prudential-Bache reduces investment banking staff

By Karen Zagor in New York

PRUDENTIAL-BACHE, a unit of Prudential Insurance Company of America, is sharply reducing its presence in the ailing US investment banking and retail brokerage industry by slashing its investment banking workforce by two thirds.

At Pru-Bache, which last year turned in a net loss of \$51m, Mr James Crowley has stepped down as head of the investment banking unit, although he is expected to remain at the firm as a senior officer. The total number of job losses at Pru-Bache is expected to be about 120 from a total of 180.

The move, another indication of the depressed state of Wall Street, comes only days after Morgan Stanley Group said it was cutting off about 6 per cent of its investment bankers, including

several managing directors.

CS First Boston has cut its staff by 10 per cent in the last year and is expected to lay off a large number of investment bankers by the end of the year. Merrill Lynch plans to cut several hundred jobs in the next few months, including a large number from its investment banking business, after already reducing its workforce by 2,200 this year.

The woes of the US investment banking industry began after the 1987 stock-market crash and have been exacerbated by this year's market decline.

Mr Alan Greenberg, chairman of Bear Stearns, recently said he had never seen problems quite like this on Wall Street, where every market was soft and there was no hot product to help over-

come some of the weakness.

Some analysts expect a sharp drop in the securities industry to drop to about 175,000 from 216,000.

Pru-Bache was a relative newcomer to investment banking. Only four years ago, it pumped \$113m into the business to try to be one of the biggest US investment banks by 1991.

It is also expected to pare down other departments including the firm's risk arbitrage business. This should allow it to concentrate on its core business of selling stocks to individual investors.

Meanwhile, Pru-Bache is expected to settle several disciplinary cases with the New York Stock Exchange. The firm has been charged with selling \$280m in securities that it was required to hold for customers.

## Royal Oak in gold mining deal

By Bernard Simon in Toronto

ROYAL OAK Resources of Vancouver has become a significant participant in Canada's gold mining industry with its purchase of a majority stake in seven mining and exploration companies previously controlled by Giant Resources, the ailing Australian group.

Royal Oak has paid C\$33m (US\$23.3m) for a 67 per cent interest in the Farnham group, whose two mines near Timmins, Ontario, and Yellowknife, in the Northwest Territories, produce about 200,000 ounces of gold a year. Proven and probable reserves are estimated at 1.7m ounces, which

Royal Oak hopes to boost by another 1m ounces within the next 12 to 18 months.

The mines are high-cost operations with costs of US\$225 to US\$250 an ounce. Royal Oak has hedged 202,000 ounces of their output over the next 18 months at an average price of over US\$400 an ounce.

Mrs Margaret Witte, Royal Oak's president and a 20 per cent shareholder, said the top priority was "to get the mines operating and to amalgamate these companies and turn them around".

A share exchange is planned within the next three months to give Royal Oak 100 per cent

of the Farnham companies, which include Giant Yellowknife Mines, Pamorex Minerals and Pamour Inc.

Teck Corporation, the Vancouver-based mining group, has a 20 per cent stake in Royal Oak. In addition, Westpac Banking Corporation, of Australia, holds a C\$19.6m secured note and has a small equity stake.

Royal Oak was previously a shell company listed on the Toronto Stock Exchange. Its present management team was the driving force behind development of the recently-opened Colomac mine in the North West Territories by Neptune Resources.

## Rand Mines in rationalisation

By Philip Gawth in Johannesburg

RAND MINES, one of South Africa's leading mining houses, has announced a rationalisation of its mining activities which includes mothballing the developing Kennedy's Vale platinum mine and cutting production at Harmony gold mine.

At the same time Mr "Daddy" Watt, chairman, announced that the group had increased attributable profits to R226.4m (US\$89m) from R216.3m in the year to September.

Turnover rose by 24 per cent to R1.7m from R1.4m, but working profit was only marginally higher at R408.9m compared with R396.8m, reflecting severe pressure on margins, especially in the gold recovery and base minerals divisions. Coal was the mainstay of this performance, with its contribution to group profits estimated at more than 70 per cent.

Mr Eddie Crocker, managing director of Rand Mines, the platinum arm of Rand Mines, said it had decided to stop work on the development of the Kennedy's Vale mine until such time as their Crocodile River mine was fully operational, paying dividends and generating a positive cash flow. Both mines are in the development stage.

Crocodile River has experienced various production difficulties which led to a five-month delay in its achieving the first phase production target of 100,000 tons of ore per month.

Mr Crocker says that contracts for the sale of the first phase production at the mine have been concluded on "favourable terms" and that "substantial progress" has been made with the sale of second phase production.

Harmony, the sixth largest gold mine in the country, but a highly marginal producer, recorded an after-tax loss of R11.6m in the September quarter. These losses, coupled with a gloomy outlook for the gold price, have led management to announce that they will be cutting back gold output from about 2,500kg per month to 2,000kg per month.

For the nine months to the end of September earnings were 15 per cent below the level achieved in the comparable period in 1989. Mr Sander said it was "unlikely that results for the full year will improve on this rate of decline".

South African chemical companies, recently announced a 12.7 per cent fall in attributable earnings for the 17 months to the end of August.

Events of recent months have upset these forecasts. "The decline in business activity has been more severe, both domestically and internationally, than expected and this position has been exacerbated by the high oil price which has raised the cost of many oil-related chemical feedstocks," said Mr Sander. "In weak markets it is not possible to recover these cost increases."

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## US waste group shares slide on legal costs

By Nikki Tait

SHARES in Browning-Ferris, the second largest waste company in the US, slumped yesterday after the group disclosed it was taking a special charge of \$67.1m to cover litigation settlement costs and making additional provisions for other legal uncertainties surrounding landfill market development projects.

By lunch-time in New York, they were 35% lower at \$24. After the charge, Browning-Ferris saw after-tax profits in the fourth quarter to end-September slump to \$32.7m, against \$73m in the same period a year earlier.

The full-year result amounted to a loss of \$44.7m, against a \$262.5m profit on \$2.1bn in sales. The group had 29 cents compared with earnings of \$1.74 last year.

The lawsuits had been filed in 1987 against Browning-Ferris and another defendant on behalf of all commercial purchasers of waste collection of the two companies.

They alleged there was a "national conspiracy to violate federal anti-trust laws... in two specific areas". Although the two defendants deny any liability, they have agreed to settle at an aggregate cost of \$50m to avoid a protracted trial. The cost of the settlement is likely to be divided fairly evenly between the two.

Even without these one-off charges, the company said sales rose 77 per cent to \$149.2m (US\$67.6m), its projected pre-tax profit of \$810.5m for the year to July 31 turned out to be a loss of \$320.3m, against a profit of \$58.2m a year ago.

The improved turnover from the increased production and higher revenue from trading and turnkey projects, were no protection against what the directors called "a combination of unforeseen circumstances".

The group's results were hit by exchange losses and a dispute with its agent in the US. Quality deficiencies in video housings resulted in the write-down of stocks of \$25.8m, against \$400,000 in the previous year.

The stock write-down was due primarily to an important

US customer rejecting 8.2m video tapes for failing to meet its stringent specifications. The group then failed to sell the rejects at the original sale price.

However, the directors state that the operating losses "are not likely to be recurrent" and, "barring unforeseen circumstances, the group will return to operating profitability in this financial year".

Currently the group does not have access to the US, its main market, because of a dispute with its exclusive agent, which is the subject of pending legal action.

The directors' steps to bring the group back to profitability include relocation of the video housing production process to Malaysia to reduce production costs and dependence on subcontractors and improving product quality and yields with technical support from its main US customer.

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## Toyota companies' firm earnings helped by car parts demand

By Emilio Terazono in Tokyo

THREE leading companies of the Toyota group reported firm profits in the first half to September 30, thanks largely to strong demand from Toyota Motor for car parts.

Aisin Seiki, which specialises in transmissions, clutches and brakes, said sales of household equipment also contributed to its double digit sales rise.

Although pre-tax profit growth was adversely affected by rising costs, net profit jumped 238.3 per cent to Y15.5bn (US\$123m) thanks to land sales. The company estimates its pre-tax profit increases at a modest 5 per cent to Y21bn for the year.

The rise in sales at Toyota Automatic Loom Works reflected a 7.1 per cent increase in textile machinery and a 27.4 per cent rise in sales of car assembling services. The company expects continuing strong demand in industrial machinery, and for the fiscal year forecasts sales to rise 14 per cent to Y560bn and pre-tax profit up 7.4 per cent to Y29bn.

Toyota Machine Works reported a 19.2 per cent increase in automobile parts sales and a 7.5 per cent rise in machine tool sales. Sales growth and rationalisation more than offset a rise in labour costs. The machine tool maker projects an 11.7 per cent rise in pre-tax profit to Y10.5bn for the year.

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## UK COMPANY NEWS

# Uncertain equity markets depress Henderson Admin

By Andrew Hill

CONTINUING uncertainty in world equity markets again depressed profits at Henderson Administration, the fund management group, in its first half. The group made £8.72m before tax in the six months to September 30, compared with £10.7m in the equivalent period. But Henderson maintained its interim dividend at 10p and said it hoped to keep its full-year dividend at 27.5p.

Funds under management also slipped from £8.26bn at the year end to £8.53bn at the half year, although Henderson said most of that decrease was due to the fall in world markets, rather than a decline in pension fund clients.

Mr Ben Wrey, the group's deputy chairman and investment director, said yesterday: "We aren't very optimistic about equity markets in the short term, although we feel that the London market has temporarily found some sort of base."

The group also announced yesterday that it would benefit in the full year from an exceptional gain of £900,000, after the Inland Revenue abandoned its long-running appeal against a decision on the rateable value of Henderson's headquarters in the City's Broadgate development.

Henderson has again tried to hold back costs — they increased by only 1.5 per cent between the year-end and the half year — but Mr Wrey admitted that certain overheads could not be reduced. "We really can't reduce some costs without cutting out parts of our marketing, which would be a mistake, or damaging our ability to service clients," he explained.

Revenue during the period shipped from £23.7m to £21.9m, and after increased operating expenses the operating profit was £4.22m (£7.14m). However, interest receivable on Henderson's cash balances of more than £55m, combined with investment income, rose to £4.5m (£3.6m).

Earnings declined from 33.86p to 26.44p before a transfer from the group's initial charges equalisation reserve (which irons out fluctuations in unit trust profits). About £8.58m (£8.55m) was available for distribution after transfer.

These are troubled times for fund management groups. The outlook for the market remains gloomy and costs cannot be shaved much closer. As a measure of how tough things are getting, interest receivable and investment income surpassed operating profit in the first half at Henderson. That said, if Henderson can put another competent year behind it the group may be able to expunge memories of the gloomy years which followed the 1987 crash and lure back some of the pension fund clients which have been drifting away since then.

If the market perks up then Henderson will receive the fabled double-benefit of new business and increased funds under management, but for the time being analysts are hoping for £16.5m before tax in the full year. On the basis of yesterday's unchanged closing price of 45p, the shares are on a prospective multiple of just under 10 times earnings, which is at the dearer end of the sector.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Aitken Hume	0.5	Jan 21	nil	-	1
Grand Central	0.4	Jan 25	0.35	-	1
Henderson Admin	10	Jan 9	10	-	37.5
Reichman Environment	4.5	Dec 19	3.5	-	10
Scottish Nat	2.95	Jan 4	2.6	8.55	7.4

Dividends shown pence per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡USM stock. §Also 0.15p special dividend.

# Ex-choirboy hopes he can control an appetite for growth

## Clay Harris meets the brash deal-maker who plans to revive USM lame duck Southwest Resources

MR JEFFREY Fowler, who bears a passing resemblance to a young Oliver Hardy, is not complimenting himself on his forbearance at lunchtime when he says, "you have to know when to stop eating and to digest, or else you explode."

The chairman of USM-traded Southwest Resources, soon to be renamed The Corporate Services Group, is explaining how he plans to avoid in the 1990s the mistakes made by his entrepreneurial counterparts in the previous decade.

Mr Fowler, a larger-than-life character who stirs up strong passions among competitors and former colleagues, took the helm at Southwest this summer through a reverse takeover by his ADG Group, which had joined the USM only in March.

It will take more than a change of name for Southwest's long-suffering shareholders to expunge bitter memories. They last received a dividend in 1985. The shares, which peaked at 77p in 1983, languish at 1 1/2p, valuing the company at £7.2m.

Can the 37-year-old son of a retired Lambeth dustman bring shareholders better times? Mr Fowler's formal education ended after St Paul's Cathedral School — as a schoolboy chorister he did two guest seasons with the Vienna Boys Choir — and he took his first job as an interviewer for Brook Street Bureau.

Two decades later, recruitment is one of the three business areas on which he has chosen to concentrate. It is inevitable, then, that attention must turn to the example of Blue Arrow, the most spectacular rise and fall in the sector in the 1980s.

"If we're looking at Tony Berry, he made one mistake — and one mistake only. He wanted to rule the world. By contrast, says Mr Fowler, "I've never bought anything for a penny of more than 5". Indeed, Southwest is believed to have paid only one year's earnings for its latest acquisition in the sector.

The group has only 15 offices so far, trading as Goodchilds, Multistaff and Crest, but all branches are located within a mile of the M25, London's orbital motorway.



Jeffrey Fowler, chairman: larger-than-life character who stirs up strong passions among competitors and former colleagues

This simplifies the distribution of cheques to temps, for example, to one circuit by one driver. Mr Fowler does not plan to alter the geographical pattern, but observes: "When we get up to about 100 branches, he'll have to get up very early."

Southwest is also focusing on office interiors — a "sophisticated way of flogging furniture," says Mr Fowler — and on outdoor posters, the business in which he spent most of his working life and in which he has a controversial reputation.

After building up his own London-based poster group, Mr Fowler went to work for London & Continental Advertising Holdings, which became Britain's largest poster group through the 1984 takeover of London & Provincial. His tenure as managing director there still provokes strong views.

One poster contractor says Mr Fowler brought "havoc and devastation" on L&P. Another traces the bad blood in the industry back to the many jobs that were lost in the re-organisation that followed LCAH's takeover of L&P.

However, a one-time insider believes problems arose because Mr Fowler drove hard bargains and did not fit into the "cozy" world of poster contractors. "He didn't befriend people in the industry in the way that most people do."

Mr Fowler admits: "I was not Mr Popular, but I don't make commercial decisions based on whether I'm going to win personally of the year award." Claiming he "busted a cartel," Mr Fowler says he understands why he came across as a "brash, big, loud bastard in the gentleman's club" of posters.

Another senior figure in the sector says problems may have arisen because Mr Fowler was a "dealer" and no one like him had ever run a contractor as large as L&P. He adds: "London & Continental Advertising failed for many reasons but none of them had anything to do with Jeffrey Fowler."

In 1986, Mr Fowler left the board of LCAH in a dispute over a plan to give management control to an Australian advertising group. He then supported a successful rival takeover bid from MAI, the then-owner of L&P's rival Mills & Allen.

Afterwards he recruited two colleagues, Mr John Abrahamson and Mr Russell Peters, who are now also Southwest directors, to join a new company. "For the first few months, I paid for them out of my own pocket," he says. "I have always felt you have to get the people and the controls in place first."

The first acquisition was Development Advertising, a London-based roadside contractor with 98 sites. "Posters are about property on one hand and advertising on the other," Mr Fowler says. "Our skills are in site-finding." So his company makes much of its profits from locating and acquiring prime poster sites and selling them on to larger contractors.

He hopes to increase Southwest's roadside poster sites from 500 to about 2,000, equal to 20 per cent of the London market.

Mr Fowler enjoys his prosperity. He and his second wife are renovating a Georgian country house in Leicestershire, from which he commutes to London each day. But Southwest shareholders may perk up when they hear: "It's no good being a dashing entrepreneur because you just dash out the door."

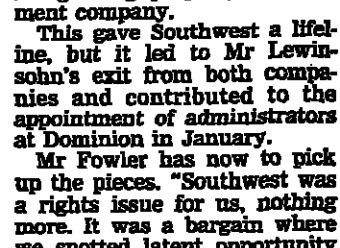
They learnt first hand the limits of charismatic chairman. Southwest, indeed, is fortunate to have survived at all. It got

the last chair when the music stopped in the shuffling of shares, assets and cash between it and its former controlling shareholder, Dominion International Group.

In early 1989, Southwest was on its knees. A former director recalled earlier this year: "We were insolvent and there was a danger of bankruptcy."

To save Southwest, Mr Max Southwell Resources

Share price (pence)



Lewinsohn, who was running both companies at the time, organised a rights issue underwritten by Dominion. Southwest also issued shares to Dominion in return for Guardian Investment Holdings, a Hong Kong property management company.

This gave Southwest a lifeline, but it led to Mr Lewinsohn's exit from both companies and contributed to the appointment of administrators at Dominion in January.

Mr Fowler has now to pick up the pieces. "Southwest was a rights issue for us, nothing more. It was a bargain where we spotted latent opportunity and badly managed assets."

Guardian has been sold for £5.6m in cash, and Southwest is close to securing a sale of its remaining US oil and gas interests.

This cash will not lie fallow, however, as another acquisition is in his sights. But Mr Fowler insists repeatedly: "Size has never impressed me, margins impress me."

Then he grins and alludes to his ample girth. "How can I say size isn't important?" Southwest's prospects may depend on whether his restraint at the table is matched by his keeping an appetite for growth under control.

# Nadir will go to Cyprus with administrator

By Clay Harris

MR ASIL NADIR, chairman of Polly Peck International, will accompany Mr Richard Stone, one of the company's administrators, when he makes his first trip to northern Cyprus.

Mr Stone, a partner with Coopers & Lybrand Deloitte, postponed his visit, which was due to begin yesterday, after Mr Nadir said he would like to go along. The trip may now begin later this week.

It emerged, meanwhile, that Mrs Nadir, who is also a director, has paid £4.5m in cash for the business of Mission, a UK manufacturer of premium loudspeakers and other audio equipment.

The deal was completed on September 6, before administrators were appointed to Polly Peck.

The disposal, however, did not save Mission itself, which collapsed yesterday with net liabilities of £2m.

Mr David Buchler of Buchler Phillips & Co, who was appointed liquidator, said the initial receipts from the Mission deal had been sufficient to pay off the Huntingdon-based company's secured creditors.

Under the sale agreement, Mission agreed to pay a 1 per cent commission on the turnover of Mission, which takes in its own UK business,

in the three years to October 1993.

Mr Buchler said: "Providing the present difficulties of Polly Peck do not have any adverse effect on the trading of Mission, then it is possible that the creditors might receive a very good dividend from this future source of income."

Polly Peck owns 73 per cent of Mission, which is listed on the Tokyo stock exchange.

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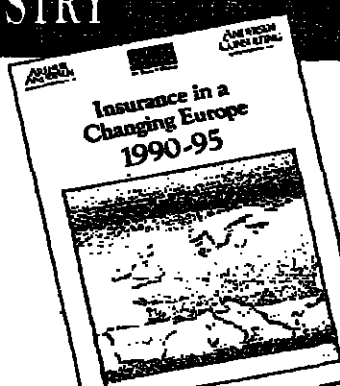
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## UK COMPANY NEWS

## Incinerator replacement hits Rechem profits

By Andrew Hill

THE COST of replacing one of its two toxic waste incinerators hit profits at Rechem Environmental Services in the six months to September 30, when the group made £4.01m before tax, compared with £4.67m in the equivalent period.

Rechem's 14-year-old incinerator at Fawley was taken out of commission for more than two months during the summer and a rotary kiln incinerator, which can handle solids as well as liquids, was installed in its place.

The group declared an increased interim dividend of 4.5p (3.5p).

Mr Paul Kaye, finance director, would not specify how much the installation of the £5m incinerator complex had cost the group in lost trading or added costs.

However, interest receivable fell from £222,000 to £202,000 because cash balances were reduced by the cost of investment, while Rechem had to recruit new staff to operate the improved plant.

Interim earnings per share slipped 9 per cent from 11.4p to 10.4p.

The group said the incinerator had contributed to sales

during the half-year - up from £10.7m to £11.2m - although it was not yet operating at full capacity.

Rechem's share-price suffered at the beginning of this year, when it stood at a peak of 703p, after the group issued a profits warning. Dockers' refusal to handle a shipment of waste and bad weather had caused disruption. The shares rose 17p to 695p yesterday.

Mr Kaye said: "We are in a contentious industry, but we now have two sound incinerators that are operating extremely well within all the environmental standards."

He said the group intended to keep up with the demands of the waste disposal market, which is now transporting more waste in solid rather than liquid form.

Mr Kaye added: "We would like to do now is build a couple of plants in Europe as the next step for the group."

Rechem announced plans to set up a joint venture with Ecotec, an Italian waste disposal company, in May.

The group is likely to pursue other opportunities to link up with European waste disposal companies which can help

guide Rechem through local planning regulations.

## COMMENT

Had it not been for the disruption caused by the installation of the new incinerator, Rechem's profits would probably have risen during the first six months of the year. The group itself is obviously confident about the future, as the hefty rise in the interim dividend suggests, although the City is a little more sceptical about the immediate prospects for the share price. As companies are squeezed by recessionary pressures they may prefer to use landfills for waste disposal, when they have the option, and Cleanaway is undercutting Rechem on price with its new rival incinerator. However, the longer range prospects are rosier, with impending UK and EC legislation likely to feed new business through to Rechem in what is already a growing market.

Forecast pre-tax profits of between £11m and £11.5m for the full year put the shares on a prospective P/E of more than 17, which sounds expensive. It is probably about right for the time being.

## Fading appeal of a 40 year old beauty show

Andrew Jacks looks at the personal feuding and financial problems of Miss World

MISS WORLD's figures are losing their appeal. As the UK passion for the annual beauty contest fades, ugly blemishes are appearing on its finances and two men are feuding over its future.

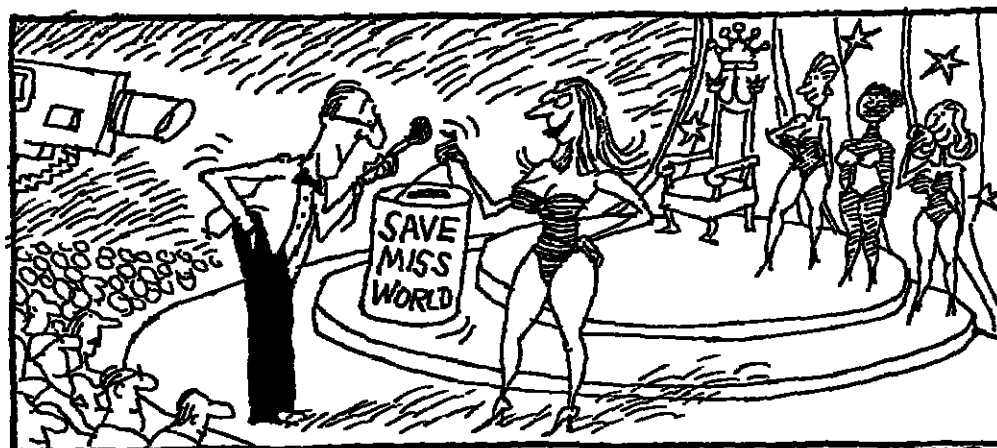
On one side is Mr Eric Morley, 71, an engaging and heavily-brycreamed businessman, surrounded by photographs of his "girls" in his Soho office. On the other is Mr Owen Oyston, 56, a long-haired and flamboyant entrepreneur, given to posing in front of his castle in Lancashire while his herd of buffalo ramble past.

The Miss World Contest will be 40 years old this week. Thanks only to a tumultuous few months of hectic reorganisation, it will take place tomorrow night at the London Palladium, and may attract a worldwide television audience of over 550m.

But all is far from well in its UK home. In October, Trans World Communications, the parent company recently embroiled in a series of bids for local radio stations including Piccadilly Radio (successful) and Yorkshire Radio Network (failed), declared pre-tax losses of £1.7m for the six months to June 30.

It wrote off £1.24m above the line in expected losses for the year against Miss World. It also reported that £350,000 of last year's £750,000 sponsorship money for the contest, offered by Formosa Airlines, the domestic airline of Taiwan, was still unpaid, and said it had launched legal actions to recover the debt. Even if all funds were recovered, profits last year were £248,000 compared with £789,000 in 1988.

"I'd be the first to admit we're going to lose money this year," says Mr Morley, executive chairman of Trans World. Mr Oyston, group chief executive, took a longer-term view at the time of the results, mentioning "significant asset disposals." He would not be drawn on whether that might include Miss World.



The contest was one of Mr Morley's brainwaves, launched in 1951 while he was a publicity manager with Mecca, the leisure group. He also invented "Come Dancing", and introduced bingo halls to Britain, before becoming chairman of the company.

When the conglomerate Grand Metropolitan acquired Mecca in 1978, and a year later was offered £1m for the contest by Caesar's Palace in Las Vegas, Mr Morley had two weeks to match the price. He did, with help from Mr Billy Butlin, founder of the British holiday camps. After several further changes of ownership, he brought the contest to the United Securities Market in 1983.

Enter Mr Oyston. The Lancashire-born actor turned businessman, who made his fortune from a chain of northern estate agents and sunk a good deal of it in the ill-fated News On Sunday paper, reversed his Red Rose radio commercial radio station into Miss World in 1988, taking it onto the main market.

"It was at best a half-hearted marriage," says one observer. But an external disaster seemed far more pressing at the time. After thirty years, network television decided to

stop broadcasting the show last year. The audience was clearly diminishing for a peak time slot, explains Mr David Elstein, director of programmes at Thames Television. "It was also hugely expensive."

The BBC had already distanced itself from beauty contests by 1984, when Mr Michael Grade, television controller, said "they are an anachronism in this age of equality and verging on the offensive." That's easy to say when you have lost the best one, points out Mr Elstein wryly, whose company poached Miss World for a reported £600,000 in 1979.

Nevertheless, viewing figures fell from 25m to half that level during the late 1970s, where they stood at 12.5m in 1988. Some people argue the audience was no longer the sort that attracted advertisers; others that television controllers have an elitist view of beauty contests not borne out by the figures.

Mr Elstein argues that those viewers still watching were becoming less appreciative, and now only gave Miss World 6 out of 10 on its ranking system.

Whatever the reason, with no British network television coverage, Top Shop, the clothing chain, withdrew its sponsorship for the 1989 contest.

Sky Television rejected an approach, and a deal with BS2, the rival satellite broadcaster, came to nothing.

With little time to spare, Mr Morley managed to hire a Thames Television crew at the company's own expense, and staged the contest in Hong Kong, Thames - but not the rest of the TV network - paid a modest fee and showed it after midnight, to an audience of less than 200,000. Meanwhile, it had lost its annual slot at the Albert Hall.

This year, the venue was to be Venezuela - until a newly appointed government minister there stymied the plans, "leaving us," says Mr Morley, "in a nutmeg squeeze." A slot was found at the London Palladium, where the final will be staged tomorrow.

In a partial concession to the feminists, the former allure of the flesh has been downplayed in recent years. In 1961, Mr Morley specified that contestants should appear in the latest fashion to attract media attention: bikinis. They have never done so since, he says.

Swimsuits will still briefly be on display, however. "You can't claim to be the most beautiful woman without at least showing you have an average figure," says Morley.

But since last year simple beauty is no longer enough and participants have had to answer questions about the environment and their contribution to the community.

For this year's show, Thames TV has paid, says Mr Elstein, "less than £20,000" to screen 90 minutes of the contest starting at 11.40pm. He adds that there is no long term commitment: "We will be taking it year by year. Clearly a pure beauty contest is becoming more and more anachronistic."

European Leisure, the fast-growing nightclub and leisure group formed three years ago, has chipped in with "some-thing over £100,000," says Mr Michael Ward, chairman and chief executive. They also have an option on the next two contests. Other modest income will come from £5,000-a-day appearance fees of the new Miss World. Mr Morley insists that demand for these visits has risen along with the fee, although the winner is not forced to do any.

Meanwhile, word from the boardroom is that Mr Morley and Mr Oyston are more at odds than ever. Mr Morley is said to be frustrated by Mr Oyston's daily "interference" in management when he was supposed to be the strategist. Mr Oyston, some suggest, sees Mr Morley as a thorn in his side, and will be happy to be rid of Miss World. "The relationship between the two never gelled," says one observer.

But as chairman of Trans World, Mr Morley has a few tricks left. He says "I will follow the shareholders' wishes." That may mean staying even if Miss World goes. On the other hand, he has the option to match the price of any buyer. He is also convinced the contest will survive.

"There will be no shilly-shallying around this time," he says. "Unless we get a network contract in the UK before the end of the year, we will go overseas."

## Next £37m property disposal

By Maggie Urry

NEXT, the high street fashion retailer and home shopping group, has signed contracts to sell development properties for £28.75m, and a further six are expected to be sold for £8m.

The sales were in line with comments the group made with its interim results last month.

However, plans to sell Club 24, its financial services business, appear not to be progressing as fast as earlier hopes.

Next shares rose 1p to 29p.

Next has been making dis-

posals to reduce its debt level, and put all its development properties up for sale earlier this year. In the interim results it made a £49m extraordinary provision against losses on the disposals because of the poor state of the market.

Eight properties, some retail and some offices, have been sold to Scottish Amicable Investment Managers on behalf of its clients, for £24m.

An edge of town retail development near Leeds went to the local authority for £1.3m.

A contract to dispose of a

property in Glasgow has been made for £3.45m.

Next said yesterday that it had a further six properties with a written down value of £8m, and an interest in another property, held off its balance sheet, also worth £8m.

Mr John Roberts, corporate director, said that discussions on sales of those properties continued. He said the disposal of Club 24 was also still being discussed but that a sale may not be completed by the group's year end on January 31 1991.

## RAND MINES LIMITED

## Group's profits increase despite difficult trading conditions

Extracts from the audited consolidated results of Rand Mines Limited and its subsidiaries for the year ended 30 September 1990.

	1990 Rm	1989 Rm	Change %
<b>Turnover</b>	<b>1 693.8</b>	<b>1 367.7</b>	<b>+24</b>
<b>Profit before taxation</b>	<b>326.2</b>	<b>330.3</b>	<b>-1</b>
<b>Profit attributable to shareholders</b>	<b>226.4</b>	<b>216.3</b>	<b>+5</b>
<b>Extraordinary charges attributable to ordinary shareholders not included above</b>	<b>73.0</b>	<b>77.9</b>	
<b>Earnings per share</b>	<b>1 592c</b>	<b>1 929c</b>	<b>-17</b>
<b>Dividend per share</b>	<b>560c</b>	<b>560c</b>	
<b>Interim</b>	<b>120c</b>	<b>120c</b>	
<b>Final</b>	<b>440c</b>	<b>440c</b>	
<b>Dividend cover</b>	<b>2.3</b>	<b>3.4</b>	

## REVIEW OF RESULTS

Profits attributable to shareholders increased by 5% to R226.4 million. This improvement has been achieved despite the difficult trading conditions in the metal and minerals markets and the firm rand/US dollar rate. Earnings per share decreased by 17% as a result of the higher number of shares in issue following the rights issue in December 1989.

The higher turnover is attributable to increased coal revenues arising largely from the additional 49% interest in the Middelburg Mine Joint Venture. Despite the growth in turnover working profit improved only marginally reflecting the severe pressure on margins particularly in base mineral and gold recovery operations. Cash from the December rights issues and increased portfolio sales gave rise to a substantial improvement in investment income. The increased interest burden stems mainly from borrowings raised to finance the additional interest in the Middelburg Mine.

## Extraordinary items

The directors deemed it prudent to provide for - the R70 million of preference shares issued by East Rand Proprietary Mines, Limited; any possible loss that may arise in respect of the vanadium assets.

## SIGNIFICANT RECENT DEVELOPMENTS

## Vanadium

Low vanadium pentoxide prices resulting from a substantial drop in demand have led to the decision to cease production of vanadium pentoxide.

## Platinum

It has been decided to stop development of the Kennedy's Vale mine until the Crocodile River mine is paying dividends and generating positive cash flows.

## Harmony

The persistently low gold price together with cash outflows arising from sustained losses have forced the company to significantly reduce the scale of operations.

## Barbrook

The listing of the shares on the Johannesburg Stock Exchange has been suspended whilst intensive investigations into the future of the mine are being pursued. A further announcement will be made as soon as possible.

Johannesburg

5 November 1990



(Incorporated in the Republic of South Africa)  
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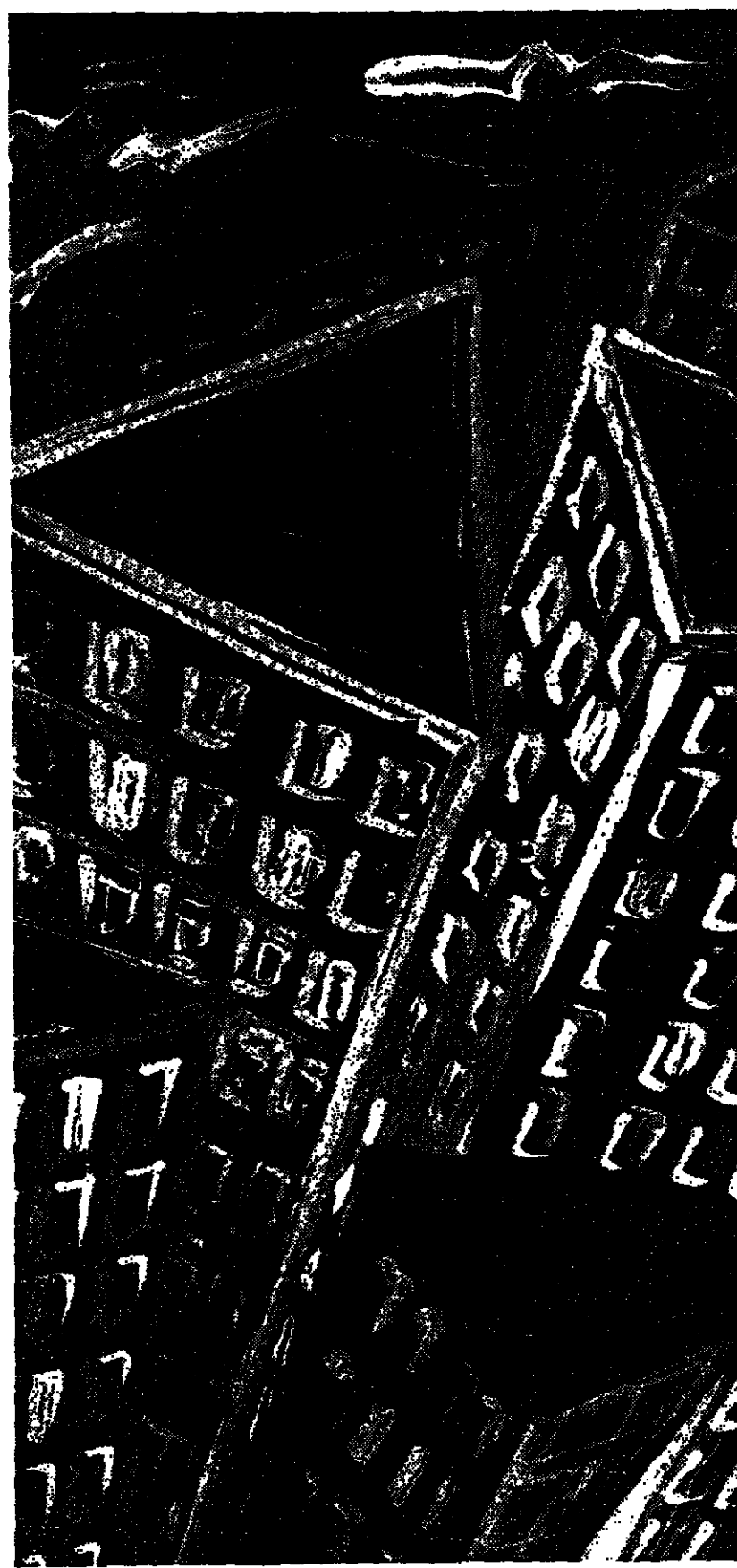
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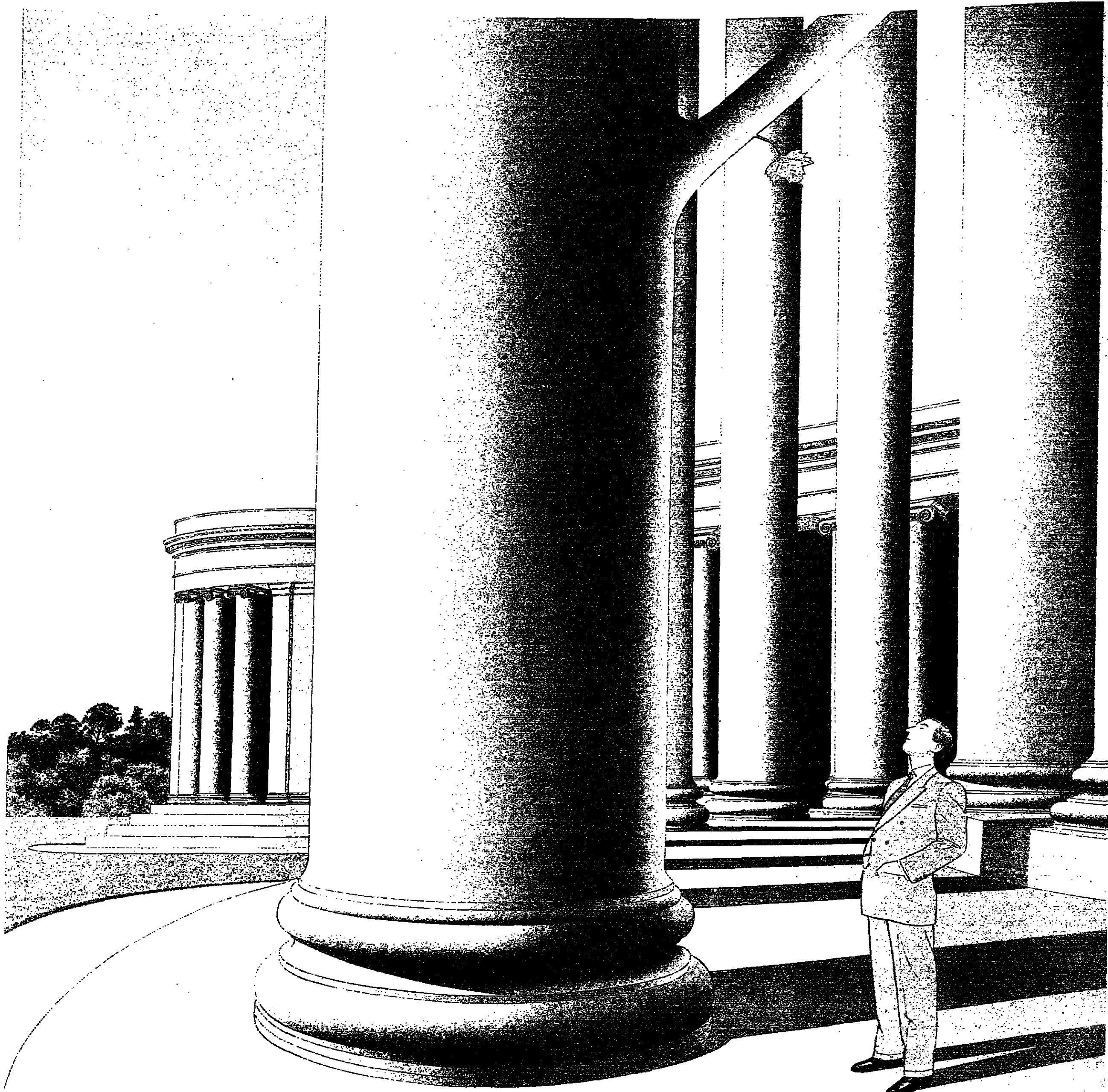












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دعوت الی اجلاس



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## Continued INDUSTRIALS (Miscel.)—Contd.

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**MINES • Cont**[illegible]

### THIRD MARKE

1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	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Vista Ents 5p.....	Y	2 1/2	+3
Willow Group 1p...	Y	2 1/4	-1

Stock Exchange dealing classifications are indicated to the left of security names as Alpha, B, C, or Y. Gamma.		Security names are listed in the right margin. Figures are listed under other categories indicated.	
Alpha		Estimated price/earnings ratios are based on latest annual reports and are not necessarily indicative of actual performance. P/E ratios are calculated on "net" distribution basis, earnings per share being computed after deducting the amount of dividends paid.	
B		Figures indicate 10 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 25 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 50 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 75 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 100 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 125 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 225 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 250 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 350 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 375 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 400 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 425 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 450 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 475 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 500 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 525 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 550 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 575 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 600 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 625 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 650 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 675 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 700 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 725 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 750 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 775 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 800 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 825 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 850 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 875 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 900 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1075 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1100 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1125 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1225 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1250 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1350 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1375 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1400 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1425 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1450 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1475 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1500 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1525 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1550 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1575 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1600 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1625 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1650 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1675 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1700 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1725 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1750 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1775 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1800 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1825 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1850 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 1875 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 1900 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 1925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 1950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 1975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2075 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2100 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2125 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2225 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2250 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2350 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2375 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2400 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2425 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2450 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2475 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2500 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2525 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2550 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2575 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2600 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2625 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2650 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2675 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2700 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2725 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2750 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2775 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2800 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2825 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2850 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 2875 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 2900 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 2925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 2950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 2975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3075 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3100 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3125 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3225 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3250 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3350 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3375 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3400 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3425 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3450 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3475 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3500 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3525 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3550 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3575 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3600 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3625 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3650 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3675 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3700 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3725 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3750 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3775 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3800 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3825 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3850 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 3875 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 3900 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 3925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 3950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 3975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 4000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 4025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 4050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 4075 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 4100 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 4125 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 4150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 4175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 4200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 4225 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 4250 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 4275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 4300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 4325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 4350 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 4375 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 4400 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 4425 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 4450 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 4475 per cent or more difference calculated on "net" distribution basis.	
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C		Figures indicate 4525 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 4575 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 4700 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 4825 per cent or more difference calculated on "net" distribution basis.	
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Y		Figures indicate 4925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 4950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 4975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 5000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 5025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 5050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 5075 per cent or more difference calculated on "net" distribution basis.	
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C		Figures indicate 5150 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 5175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 5200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 5225 per cent or more difference calculated on "net" distribution basis.	
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C		Figures indicate 5275 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 5325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 5350 per cent or more difference calculated on "net" distribution basis.	
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Y		Figures indicate 6175 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 6200 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 6225 per cent or more difference calculated on "net" distribution basis.	
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C		Figures indicate 6275 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 6300 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 6325 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 6350 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 6700 per cent or more difference calculated on "net" distribution basis.	
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Gamma		Figures indicate 6825 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 6850 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 6875 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 6900 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 6925 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 6950 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 6975 per cent or more difference calculated on "net" distribution basis.	
B		Figures indicate 7000 per cent or more difference calculated on "net" distribution basis.	
C		Figures indicate 7025 per cent or more difference calculated on "net" distribution basis.	
Y		Figures indicate 7050 per cent or more difference calculated on "net" distribution basis.	
Gamma		Figures indicate 7075 per cent or more difference calculated on "net" distribution basis.	
Alpha		Figures indicate 7100 per cent or more difference calculated on "net" distribution basis.	
B			

**INTERNAL SECURITY - R**

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## AUTHORISED UNIT TRUSTS

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar and pound nervous

CURRENCIES HELD steady on the foreign exchanges yesterday, but the dollar and sterling looked vulnerable on interest rate and economic factors.

In nervous trading the dollar hit a record trading low of DM1.4820 as sentiment remained very bearish on the lack of interest rate support for the currency. Eurodollars are already below corresponding rates for D-Marks and the Japanese yen and a further easing of the Federal Reserve's monetary stance is not ruled out at next week's Federal Open Market Committee meeting.

In New York yesterday the Fed added money to the banking system, via \$1.5bn of customer repurchase agreements, when Federal funds were trading at 7 1/2 per cent. This was above the assumed target rate of 7 per cent.

Dealers suggested that the dollar seems set to move lower on economic factors, but there is some nervousness of central bank intervention and any opening of hostilities in the Gulf could also provide support for the currency.

In Frankfurt the German Bundesbank did not intervene when the dollar was fixed at a record low of DM1.4885 against DM1.4933 on Monday. The fixing was near the middle of a fairly narrow range.

John Major, chancellor of the exchequer, at yesterday's close sterling remained below its ERM central rate against the D-Mark but had climbed to DM2.5525 from DM2.5275. It also improved to FF9.8375 from FF9.8225 and to Y251.25 from Y249.75, but was unchanged at SF2.4650. The pound gained 30 points to \$1.9735 and its index rose 0.1 to 94.4.

The Spanish peseta stayed at the top of the ERM, 4.15 per cent above its central rate against sterling. The Belgian franc was also firm, following last week's increase in the Belgian discount rate.

The Italian lira improved against the D-Mark at the Milan fixing without any intervention by the Bank of Italy. On Monday the Italian currency was at its weakest level since it moved into the narrow band of the ERM in January.

The next important test for the pound is likely to follow tomorrow's Autumn statement on the UK economy by Mr.

## EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	Rate	% Change	% Annual	% Weekly	% Daily
Spanish Peseta	100	133.631	-0.37	4.15	0.1	0.1
Belgian Franc	100	20.360	-0.14	0.08	0.0	0.0
French Franc	100	6.55957	0.07	0.07	0.0	0.0
German Mark	100	2.45636	0.07	0.07	0.0	0.0
Italian Lira	1,000	203.636	0.15	0.15	0.0	0.0
Dutch Guilder	100	2.20371	0.07	0.07	0.0	0.0
Portuguese Escudo	200	200.482	0.07	0.07	0.0	0.0
Swedish Krona	100	4.66563	0.07	0.07	0.0	0.0
Japanese Yen	100	163.260	0.07	0.07	0.0	0.0
British Pound	100	1.97350	0.07	0.07	0.0	0.0

Source: European Central Bank. Rates are in decimal form. Percentages change are for the day, a positive change shows a rise. Percentages change are for the week, a positive change shows a rise. Percentages change are for the year, a positive change shows a rise.

Adjusted, calculated by Financial Times.

## POUND SPOT - FORWARD AGAINST THE POUND

Month	Spot	Forward	% Change
1 month	1.9735	1.9735	0.00
3 months	1.9735	1.9735	0.00
6 months	1.9735	1.9735	0.00
12 months	1.9735	1.9735	0.00

Forward premiums and discounts apply to the US dollar.

## STERLING INDEX

Time	Index	Change
8.30 am	94.1	-0.1
9.00 am	94.1	-0.1
9.30 am	94.1	-0.1
10.00 am	94.1	-0.1
10.30 am	94.1	-0.1
11.00 am	94.1	-0.1
11.30 am	94.1	-0.1
12.00 pm	94.1	-0.1
12.30 pm	94.1	-0.1
1.00 pm	94.1	-0.1
1.30 pm	94.1	-0.1
2.00 pm	94.1	-0.1
2.30 pm	94.1	-0.1
3.00 pm	94.1	-0.1
3.30 pm	94.1	-0.1
4.00 pm	94.1	-0.1

Source: Financial Times. Sterling index based on 100 in 1982.

## CURRENCY MOVEMENTS

Currency	Rate	Change
US Dollar	1.9735	-0.01
Japanese Yen	163.260	-0.01
Swiss Franc	1.4885	-0.01
West German Mark	2.45636	-0.01
French Franc	6.55957	-0.01
Italian Lira	203.636	-0.01
Dutch Guilder	2.20371	-0.01
Portuguese Escudo	200.482	-0.01
Spanish Peseta	133.631	-0.01
Belgian Franc	20.360	-0.01
British Pound	1.9735	-0.01

Source: Financial Times. Currency movements based on 100 in 1982.

## CURRENCY RATES

Currency	Rate	Change
US Dollar	1.9735	-0.01
Japanese Yen	163.260	-0.01
Swiss Franc	1.4885	-0.01
West German Mark	2.45636	-0.01
French Franc	6.55957	-0.01
Italian Lira	203.636	-0.01
Dutch Guilder	2.20371	-0.01
Portuguese Escudo	200.482	-0.01
Spanish Peseta	133.631	-0.01
Belgian Franc	20.360	-0.01
British Pound	1.9735	-0.01

Source: Financial Times. Currency rates based on 100 in 1982.

## OTHER CURRENCIES

Currency	Rate	Change
Argentine Peso	100	100.00
Brazilian Real	100	100.00
Canadian Dollar	100	100.00
Chinese Yuan	100	100.00
Indian Rupee	100	100.00
Israeli Sheqel	100	100.00
Mexican Peso	100	100.00
New Zealand Dollar	100	100.00
Norwegian Krone	100	100.00
South African Rand	100	100.00
South Korean Won	100	100.00
Taiwan Dollar	100	100.00
Thai Baht	100	100.00
US Dollar	100	100.00

Source: Financial Times. Other currencies based on 100 in 1982.

## FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS				LIFFE US TREASURY BOND FUTURES O				
£50,000 Gilt of 100%				\$100,000 Gilt of 100%				
Strike Price	Call-settlements	Put-settlements	Settled	Strike Price	Call-settlements	Put-settlements	Settled	
81	3-27	4-19	0-08	0-37	81	2-43	4-11	0-09
82	3-30	3-35	0-05	0-57	82	2-50	3-99	0-15
83	3-33	3-15	1-10	1-10	83	2-53	3-28	0-24
84	3-37	3-38	1-29	1-36	84	2-12	2-18	0-40
85	3-37	3-55	1-15	2-04	85	2-12	2-12	0-40
86	0-11	1-23	1-33	2-41	86	0-21	1-20	1-99
87	0-05	1-01	2-47	1-19	87	0-11	0-43	2-36
88	0-07	0-49	4-47	0-40	88	0-07	0-43	2-36

Settled: 100% Long, 100% Short, 100% Put

100% Long, 100% Short, 100% Put







## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 4

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**NASDAQ NATIONAL MARKET**

30m prices November 6

Sales										Sales										Sales										Sales									
Stock	Div.	High	Low	Last	Change	Stock	Div.	High	Low	Last	Change	Stock	Div.	High	Low	Last	Change	Stock	Div.	High	Low	Last	Change																
ACC Co	76	11	238	84	0	-	ACC Co	76	11	238	84	0	-	ACC Co	76	11	238	84	0	-	ACC Co	76	11	238	84	0	-												
ADT	7	11	238	84	0	-	ADT	7	11	238	84	0	-	ADT	7	11	238	84	0	-	ADT	7	11	238	84	0	-												
ACT	7	11	238	84	0	-	ACT	7	11	238	84	0	-	ACT	7	11	238	84	0	-	ACT	7	11	238	84	0	-												
AGC	7	11	238	84	0	-	AGC	7	11	238	84	0	-	AGC	7	11	238	84	0	-	AGC	7	11	238	84	0	-												
AGM	7	11	238	84	0	-	AGM	7	11	238	84	0	-	AGM	7	11	238	84	0	-	AGM	7	11	238	84	0	-												
AGN	7	11	238	84	0	-	AGN	7	11	238	84	0	-	AGN	7	11	238	84	0	-	AGN	7	11	238	84	0	-												
AGP	7	11	238	84	0	-	AGP	7	11	238	84	0	-	AGP	7	11	238	84	0	-	AGP	7	11	238	84	0	-												
AGQ	7	11	238	84	0	-	AGQ	7	11	238	84	0	-	AGQ	7	11	238	84	0	-	AGQ	7	11	238	84	0	-												
AGR	7	11	238	84	0	-	AGR	7	11	238	84	0	-	AGR	7	11	238	84	0	-	AGR	7	11	238	84	0	-												
AGS	7	11	238	84	0	-	AGS	7	11	238	84	0	-	AGS	7	11	238	84	0	-	AGS	7	11	238	84	0	-												
AGT	7	11	238	84	0	-	AGT	7	11	238	84	0	-	AGT	7	11	238	84	0	-	AGT	7	11	238	84	0	-												
AGU	7	11	238	84	0	-	AGU	7	11	238	84	0	-	AGU	7	11	238	84	0	-	AGU	7	11	238	84	0	-												
AGV	7	11	238	84	0	-	AGV	7	11	238	84	0	-	AGV	7	11	238	84	0	-	AGV	7	11	238	84	0	-												
AGW	7	11	238	84	0	-	AGW	7	11	238	84	0	-	AGW	7	11	238	84	0	-	AGW	7	11	238	84	0	-												
AGX	7	11	238	84	0	-	AGX	7	11	238	84	0	-	AGX	7	11	238	84	0	-	AGX	7	11	238	84	0	-												
AGY	7	11	238	84	0	-	AGY	7	11	238	84	0	-	AGY	7	11	238	84	0	-	AGY	7	11	238	84	0	-												
AGZ	7	11	238	84	0	-	AGZ	7	11	238	84	0	-	AGZ	7	11	238	84	0	-	AGZ	7	11	238	84	0	-												
AGAA	7	11	238	84	0	-	AGAA	7	11	238	84	0	-	AGAA	7	11	238	84	0	-	AGAA	7	11	238	84	0	-												
AGAB	7	11	238	84	0	-	AGAB	7	11	238	84	0	-	AGAB	7	11	238	84	0	-	AGAB	7	11	238	84	0	-												
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AGAI	7	11	238	84	0	-	AGAI	7	11	238	84	0	-	AGAI	7	11	238	84	0	-	AGAI	7	11	238	84	0	-												
AGAJ	7	11	238	84	0	-	AGAJ	7	11	238	84	0	-	AGAJ	7	11	238	84	0	-	AGAJ	7	11	238	84	0	-												
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**3pm prices**  
**November 6**

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## AMERICA

## Equities turn lower while traders wait upon events

## Wall Street

A QUIET morning on Wall Street saw blue chip issues turn easier as traders waited for the results of the treasury's quarterly refunding auction in the afternoon, writes Karen Zagor in New York.

At 3pm, the Dow Jones Industrial Average was down 9.66 at 2,492.57, after meeting resistance at the 2,500 level. On Monday, the Dow closed 11.39 higher at 2,502.23. However, the stock market decline was not pronounced, with advancing issues having a very slight edge on those falling, while the broadly based Standard & Poor's 500 index, although lower through most of the morning, at 1pm was quoted down only 0.81 at 313.75.

Browning Ferris, one of the biggest US waste disposal companies, was the most active NYSE stock and the sharpest faller of the morning. It dropped 3% to \$24.40 on fourth quarter net income of 21 cents a share, down from 48 cents a year earlier.

For the whole of 1990, Browning Ferris had a net loss of 29 cents a share, against net income of \$1.74 in 1989.

## ASIA PACIFIC

## Nikkei retreats sharply on talk of imminent Gulf war

## Tokyo

RUMOURS of imminent war in the Gulf led to a round of selling yesterday which caused the Nikkei average to shed the previous day's gains. Falls in crude oil prices and long-term interest rates failed to interrupt the downward trend, while heavy selling in the futures market towards the end of the day caused equities to fall further, writes Emiko Terazono in Tokyo.

The Nikkei closed down 419.58, or 1.7 per cent, at 23,955.75, finishing below the 24,000 level for the first time since October 17. It reached a day's high of 24,645.25 soon after the opening, but retreated to a low of 23,967.66 after succumbing to small-lot selling. Trading volume inched up to a meagre 280m shares from Monday's 220m.

Losses outnumbered gains by 755 to 187, and 151 issues remained unchanged. The Topix index of all first section stocks declined 18.61 to 1,781.62 and, in London trading, the ISE/Nikkei 50 index shed 8.75 to 1,324.37.

The news that the Ministry of Finance had decided to remove the ban on Japanese brokers trading on their own accounts in the final 15 minutes of the daily session did not improve the low turnover. Investors were also waiting for the outcome of the US congressional elections and the American treasury auction.

Mr Shin Tokai at County Natwest said: "The market was mainly led by rumours and outside factors. With the lack of change in fundamentals, people are also relying on technical analysis."

Yamato Transport, Japan's largest door-to-door parcel delivery service, gained ¥30 to ¥1,100 after announcing a 38.6 per cent increase in pre-tax profits for the first six months and revising upwards its pre-tax profits forecast for the full year to a 23 per cent rise.

Banking shares were among

the few winners of the day, due to expectations of lower interest rates. Industrial Bank of Japan climbed ¥140 to ¥1,730 and Mitsui Bussan Kaisha was up ¥140 to ¥1,690.

A report in a daily newspaper that the Ministry of Construction was investigating the construction of a dam in Kanagawa prefecture caused Kajima Construction to slip ¥20 to ¥1,540. Raito Kogyo, the subcontractor, fell ¥70 to ¥2,430.

Marui, a leading department store for people aged ¥30 to ¥2,500 on news that October sales were down 5.4 per cent. In Osaka, high-technology and pharmaceutical issues were down. Nintendo succumbed to profit-taking, losing ¥500 to ¥23,500, and Ono Pharmaceutical was down ¥300 to ¥5,050. The OSE index fell 351.10 to 37,440.68 on volume of 22.6m shares, up from 14.8m.

Roundup

DOMESTIC concerns came to the forefront in the Pacific Basin region yesterday. Bombay was closed.

NEW ZEALAND's rally was short-lived, writes Dai Haywood in Wellington. After falling to three successive six-year lows last week, the Barclays index of the top 40 companies recovered 1.7 per cent on Monday. This followed a 7.7 per cent drop in the previous five days. Yesterday, however, it fell 41.21, or 1.3 per cent, to 1,290.50, its lowest for nearly seven years.

The renewed slide was precipitated by the announcement of NZ\$2.8bn (US\$1.7bn) of bad debts in the Australian operations of the Bank of New Zealand and the need for the NZ government, a major shareholder, to support a rescue package.

BNZ weakened 19 cents to 53 cents. Other shares, including the other main BNZ shareholder, Fay Richwhite, followed BNZ down.

AUSTRALIA achieved its second rise in a row, amid arbitrage-related trading and demand for leading stocks. Trading was light, partly because of the Melbourne Cup race holiday in Victoria; turnover came to A\$114m, compared with A\$154m on Monday. The All-Ordinaries index added 4.5 to 1,517.8.

SINGAPORE softened in quiet trading, mainly on a S\$20m loss at late manufacturing Electro-Magnetic (EMS). EMS's 200 shares, which had been suspended for the previous six days, had been considered a steady earner with a good niche market and growth potential. Its fall from S\$1.39 to S\$1.19 helped pull the Straits Times Industrial index down 12.58 to 1,210.34.

HONG KONG's best feature was Pacific Concord, which topped the actives list and surged 21 cents, or 14 per cent, to HK\$1.66 on a joint venture with Cheung Kong to redevelop a huge oil depot for residential and commercial use.

However, the property world had its bleak spots. New World Development, which also includes hotels, reported a 20 per cent drop in profits which left it 10 cents off at HK\$3.50. Overall, volume stayed moderately low as the Hang Seng index eased 0.53 to 2,966.71.

TAIWAN lost its early sparkle in active trading as investors took profits. The weighted index shed 60.13, or 1.7 per cent, to 3,467.70, after initially rising 193 points. Volume rose to a second largest daily total, at 2.1bn shares, against Monday's 968m, as turnover value expanded to T\$69.9bn.

SEOUL eased, the composite index ending down 4.68 at 702.93 after a fairly active business. Investors were speculating on the outcome of a meeting between leaders of the ruling party.

MANILA rose on hopes of improved earnings after last week's devaluation of the peso and on optimism about wage settlements. The composite index added 13.96 at 612.49.

Club stocks will be offered Wal-Mart common stock or cash for their shares, subject to the stipulation that no more than 20 per cent of the aggregate price is paid in cash.

Air Wisconsin declined 4% to \$8.40 after posting a third quarter loss of 3 cents a share, against a third quarter loss of 5 cents a share last year.

## Canada

TORONTO stocks were mixed in midday trade yesterday, but with gains in all sectors except gold and metals. The composite index rose 1.6 to 3,065.9 on the smaller NMS, however, although overall declines led advances by 205 to 177.

Oil prices edged ahead, adding support to the market's advance. Banks and financial institutions led gains, in anticipation of lower interest rates.

Concerns about rising aluminium inventories pushed aluminium stocks lower. Alcan fell 0.5% to C\$20.40 in heavy volume.

Four Seasons Hotels slipped 0.4% to C\$16.40 after reporting a rise in third quarter earnings. Gulf Canada retreated 0.3% to C\$12.40 in light trade after announcing a reduction in its third quarter loss.

## Domestic obstacles cast shadow in Sweden

Economic and corporate prospects are scaring investors away, writes John Burton

STOCKHOLM has been one of the world's worst performing stock markets in the past three months, tumbling 33 per cent since Iraq's invasion of Kuwait on August 2. The bourse stabilised yesterday after seven consecutive declines, with the AllShare index ending 0.4 firmer at 883.1. However, yesterday's showing seemed to be a precarious balance.

The outlook for recovery is not good. The steep decline reflects not only worries about the Gulf crisis and the resulting plunge in markets worldwide, but also a growing list of domestic problems. The economy is heading for stagnation, with the gross national product growth rate falling towards zero and inflation exceeding 11 per cent this year.

A sharp boost last month in short-term interest rates, now at 15 per cent, added to market jitters. Imposed to prevent a run on the krona, the high rates are already taking their toll of finance companies, which have faced a liquidity

squeeze over worries about their property loans. This caused the market to sink in late September, and the problems in that sector are by no means over.

The recent economic austerity package, which promised government spending cuts and a fairly firm commitment for Sweden to join the European Community, has done little to calm investor anxiety. The general consensus was that the package, although noteworthy, was too little and too late; that more drastic action is needed to solve the economy's structural problems, which centre on the failure of productivity growth to compensate for climbing wage costs.

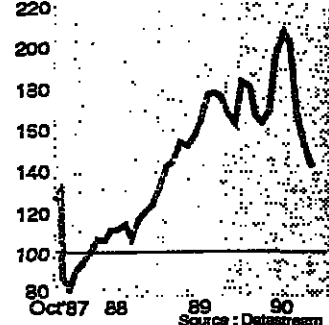
Although Sweden has been burdened with high production costs for some time, the country's multinationals registered considerable profits growth during the 1980s, due to their extensive international activity and buoyant global demand.

This is no longer the case. Their leading foreign markets, including the US and the UK,

are sliding into recession. Moreover, the corporate debt burden is increasing following an acquisition spree in Europe over the last year and a world-

## Sweden

FT-A World Index (local currency)



wide rise in interest rates.

Most economists predict that Sweden will face two tough years of sluggish growth and with the government so far refusing to devalue the krona as a way out of the crisis, many

companies are confronting a period of slim profits.

The net profit for the 50 most traded stocks on the Stockholm bourse rose by 16 per cent in 1988 and 8 per cent in 1989, but it will fall by 10 per cent this year as the forest industry and manufacturing companies report declining earnings, according to Mr Carl Johan Bonnier, a Nordbanken analyst. He expects, however, that average corporate earnings will rebound by at least 10 per cent in 1991 as pharmaceutical concerns continue to do well, and other industries report unchanged profits after this year's fall.

But companies will be hard pressed to increase dividend yields sufficiently to attract investors, who are looking for more profitable investments in the face of dropping share prices and high interest rates.

Foreign interest in the Stockholm bourse is weak, with overseas investors being the first to sell blue chip Swedish stock after the outbreak of the Gulf crisis. Domestic institu-

tional investors are also fleeing the market for foreign bourses. The short-term bond market, with its high interest rates, is siphoning investment from equities, and new tax rules next year on capital gains will give an added boost to the bond market. Private investors, who gave the stock market an upsurge earlier in the year, are pulling out.

Withdrawals exceeded investments in the tax-favoured mutual funds in September for the second month running. New share issues, which had increased by 80 per cent during the first nine months, are drying up.

Optimists believe that the market will revive once a new government budget, with promises of more austerity measures, is tabled in mid-January. Pessimists say that the market will not improve substantially until after the elections next September, given the Social Democratic government's apparent inability to come to grips with the country's economic problems.

## EUROPE

## Special situations create pockets of interest

SPECIAL situations made some impact, but depressed prices and low volume were standard fare yesterday, writes Our

AMSTERDAM was unhappy with Nationale-Nederlanden's plan to merge with NMB Postbank. The insurer's shares plunged F15.30 or 9.9 per cent to a year's low of F145.30. The deal was viewed as positive for the smaller NMB, however, and the bank's shares rose almost as sharply as NatNed's, falling F13.70 or 9.8 per cent to F141.30. Both stocks were suspended on Monday.

One analyst said that the market was unable to identify the advantages of the deal for NatNed. He added that NatNed had said not long ago that it would not merge with a Dutch bank, so it had some explaining to do. An analysts' meeting is due to take place tomorrow.

Royal Dutch, which reports third-quarter figures tomorrow, rose 70 cents to F153.20, while Shell, however, due to announce results on Friday, slipped 20 cents to F146.70.

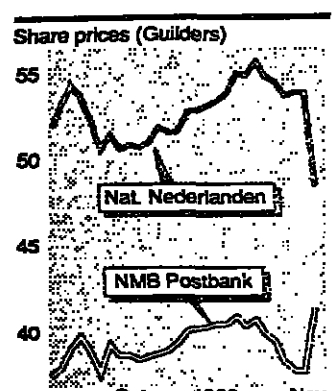
The CBS Tendency index eased 0.2 to 94.4 in quiet turnover boosted by trading in NatNed and NMB.

FRANKFURT broke below the 1,400 level on the DAX index for the first time since October 6. On that day, the index announced its entry into the ERM and the DAX bounced back above 1,400 in after-hours trading.

It showed no such resilience yesterday, the DAX closing 16.71, or 1.2 per cent, lower at 1,388.24 after a fall of 6.12 to 611.44 in the FAZ at mid-session. Volume rose from DM3bn to DM3.2bn.

A few stocks were up; among them, construction and building industry stocks such as Bilfinger & Berger and Heidelberger Zement, rising DM17 to DM885 and DM48 to DM1,109, were responding to positive brokers' circulars on prospects.

However, the main theme was decline, once again in carmakers, chemicals and banks, with Daimler off DM10.20 at DM564, Bayer DM3.50 at



DM198.20 and Deutsche Bank DM10 at DM572.20.

Among German analysts and dealers, there was resistance to the view that, because US banks were having a bad time and the Swiss seemed to be following suit, then the German banks were bound to report poor results in their turn.

However, the market was not interested in good news; excellent results from RWE left the shares DM3.70 lower at DM389.50, and better sales at MAN dropped the latter DM5 to DM362.

PARIS eased in dull trading, the CAC 40 index losing 7.08 to 1,613.49. Turnover rose to about FF1.2bn, helped by a block trade in Eurocom, the advertising company and part of the Havas communications group, which slipped FF9 to FF711 with 101,460 shares traded.

Peugeot dropped FF6.50 to FF394 on 139,325 shares, for a two-day fall of 3.8 per cent, after France's new car registration figures for October showed a 7 per cent decline from the same month last year. There was also talk of an earnings downgrade and of a large block of Peugeot shares looking for a buyer in London.

MADRID had another quiet day, but one salesman pointed out that sectors such as the banks and utilities had been holding up fairly well in spite of recent market weakness. The general index edged up

0.21 to 229.54 in turnover similar to Monday's Pta4.5bn.

Telefonica, the telecommunications monopoly which reported an 18.5 per cent rise in nine-month net profits, closed Pta2 higher at Pta798 after reaching a day's high of Pta802. One of the few unusually active stocks was Agroman, the construction company which rose Pta85 to Pta2,035 with 152,895 shares traded. Among utilities, Iberdruo gained Pta12 to Pta622 on 504,926 shares.

MILAN rose by a fraction from Monday's low, the Comit index closing 0.25 higher at 552.03, but volume was thought to have changed little from the previous day's meagre 1.8bn.

After hours, things looked worse as Fiat lost L116 to L6,045 compared with an official close fractionally higher on the day at L6,161. Pirelli Spa, which rejected the conditions under which Continental of West Germany is willing to discuss co-operation, rose L30 to L1,640.

BRUSSELS was little

changed overall, although Groupe Bruxelles Lambert, the holding company, gained BFR30 to BFR3,450 after the company's recent encouraging assessment of its results.

GIB, the retailer, fell BFR22 to BFR1,190 in spite of expectations that the chairman's death on Monday would prompt takeover speculation. The cash market index edged up 10.00 to 5,197.85 in modest turnover.

OSLO hit a year's low, but the picture was not totally black. While the all-share index dropped 5.13 to 489.20, banks bucked the trend with an index rise of 1.15 to 128.57 and Den norske Bank up NKr3.8 to NKr120.

ZURICH remained unhappy about the banking sector as the Credit Suisse index slipped 1.9 to 475.7. In insurance, Swiss Re gave up a token SF10 to SF7,700 after saying that it expected approximately unchanged net profits in 1990. AERAS fell back after the previous day's bounce, with the general index down 39.97 or 3.6 per cent at 915.67.

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## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

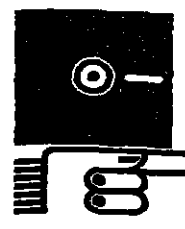
NATIONAL AND REGIONAL MARKETS		MONDAY NOVEMBER 5 1990								FRIDAY NOVEMBER 2 1990					DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)	
Figures in parentheses show number of times of stock																	
Australia (77)	121.64	+2.2	91.82	97.46	83.98	103.47	+1.6	7.45	118.98	90.42	96.72	92.91	101.85	108.31	118.98	150.11	
Austria (18)	203.40	+2.0	103.03	102.07	107.14	105.04	+1.7	1.75	193.35	101.50	102.07	101.59	155.36	285.63	178.57	178.57	
Belgium (61)	138.52	+0.2	104.97	111.77	107.78	105.80	-0.4	5.48	138.17	105.76	113.12	108.67	106.22	130.02	126.67	138.04	
Canada (120)	124.30	+0.4	93.52	99.59	96.02	104.86	+0.4	3.78	123.75	94.04	100.56	96.63	104.38	133.81	121.24	147.91	
Denmark (53)	257.89	+0.7	193.81	206.38	198.00	200.13	-0.2	1.48	255.73	194.33	207.89	199.69	200.51	277.62	234.05	216.85	
Finland (29)	104.33	+1.1	70.83	83.39	80.50	78.90	+1.8	3.91	105.59	80.17	85.78	82.56	101.06	124.17	104.71	104.71	
France (122)	140.87	+0.6	105.93	112.86	108.82	110.16	-0.6	3.74	140.06	106.45	113.86	109.37	110.80	168.85	124.98	121.61	
Germany (91)	115.54	+1.2	86.83	92.59	89.28	89.26	+0.2	2.54	114.13	86.73	92.79	89.12	89.12	144.63	101.38	93.54	
Hong Kong (48)	120.28	-0.4	103.50	96.37	92.93	120.41	-0.5	5.48	120.82	91.82	98.22	94.35	120.59	147.49	112.24	112.24	
Ireland (17)	163.79	+1.8	126.28	131.25	126.54	128.18	+1.0	4.08	160.94	122.30	130.53	125.67	128.58	198.57	157.83	157.83	
Italy (91)	84.74	+0.2	63.76	67.89	65.48	70.99	-0.9	3.48	84.60	64.29	68.76	66.06	71.33	108.26	80.87	87.97	
Japan (454)	134.91	+2.2	101.51	108.09	104.24	108.09	+0.7	0.79	132.03	100.33	107.33	103.11	107.33	197.26	108.58	108.58	
Netherlands (56)	200.34	+1.2	150.73	160.51	154.77	160.37	+1.1	3.01	198.04	150.49	160.33	154.64	206.01	250.72	191.22	191.22	
Norway (27)	170.98	+0.5	128.55	138.90	132.01	140.70	-0.1	2.89	170.08	129.24	138.26	132.81	140.81	294.83	158.07	158.07	
Sweden (27)	170.98	+0.5	128.55	138.90	132.01	140.70	-0.1	2.89	170.08	129.24	138.26	132.81	140.81	294.83	158.07	158.07	
Switzerland (86)	92.18	+1.9	89.34	73.85	71.21	71.45	+0.3	2.99	90.45	68.73	73.53	70.64	71.24	109.77	85.06	84.37	
USA (533)	126.08	+0.6	96.31	101.50	97.87	126.08	+0.3	3.91	125.62	95.46	102.12	98.10	125.62	148.95	135.22	135.22	
Europe (863)	108.82	+1.3	102.94	109.62	105.71	104.49	+0.3	4.44	135.05	102.82	108.78	105.46	104.21	157.85	124.91	122.15	
Nordic (112)	137.70	+0.4	137.70	146.70	141.46	140.59	-0.3	2.15	182.32	138.54	146.21	142.37	141.01	223.29	172.38	166.31	
Pacific Basin (655)	133.80	+2.1	100.52	107.04	103.22	108.05	+0.7	1.17	130.83	99.42	106.38	102.17	107.28	192.75	107.82	150.92	
Pacific (102)	136.27	+1.8	101.77	108.37	104.50	107.33	+0.8	0.82	133.05	100.77	107.33	103.78	107.16	116.03	107.82	107.82	
North America (853)	126.45	+0.8	96.11	101.32	97.71	125.25	+0.8	3.90	125.41	96.30	101.36	97.55	122.42	148.95	135.22	135.22	
Europe Ex. UK (84)	121.16	+0.8	91.18	97.09	93.82	94.27	-0.1	3.33	120.03	91.21	97.59	93.75	94.40	145.62	109.63	109.63	
Europe Ex. Japan (201)	117.39	+1.2	86.33	90.89	88.70	92.77	+0.1	6.30	116.03	88.17	94.33	90.91	103.11	145.72	116.03	132.22	
Asia Ex. Japan (130)	103.25	+0.3	78.10	80.49	77.09	80.85	+0.3	3.33	103.25	78.10	80.49	77.09	80.85	103.25	78.10	78.10	
World Ex. UK (2045)	122.34	+1.4	96.59	102.88	99.19	113.06	+0.6	2.68	122.48	96.24	102.96	98.90	112.38	162.00	115.37	148.41	
World Ex. So. A. (228)	131.14	+1.4	96.67	105.08	101.33	113.76	+0.6	3.01	129.29	96.25	105.11	100.97	113.03	161.84	148.28	148.28	
World Ex. Japan (1989)	130.77	+1.0	96.34	102.82	101.47	113.68	+0.6	4.21	129.49	96.37	105.24	101.10	116.16	151.05	124.31	130.95	
The World Index (2344)	131.33	+1.4	96.61	105.22	101.47	113.68	+0.6	3.21	129.48	96.40	105.28	101.12	113.16	162.08	118.33	148.36	



# INFORMATION TECHNOLOGY IN FINANCE

SECTION III

Wednesday November 7 1990



In spite of the general softening in financial markets, the pressures caused by continuing

globalisation, deregulation and increasing competition, mean that financial institutions cannot afford to cut back on investment in technology, writes Alan Cane

## Investment still mounting

THE WORLD'S financial institutions continue to be driven by a now familiar trio of pressures - increased competition, deregulation and new technology.

The result is a level of turbulence that has rarely been seen in the business world. The Massachusetts Institute of Technology study, *Management in the 1990s*, sums up the problem: "Continued globalisation and increasingly competitive markets will call for rapid responses and innovative thinking. In this turbulent environment, information technology will leverage time and human resources".

For financial institutions in Europe, there has been the extra dimension forced on them by the plans of the European Commission to restructure the market so that any EC financial institution will, after January 1 1993, be free to offer its services in any other member state and extend its range of services beyond those defined by traditional national legislation.

How are the world's financial organisations responding? Investment in information technology (IT) is one of the most important elements. They are spending phenomenal sums on IT. One estimate puts the

total 1990 spend at \$15bn in the US commercial banking sector alone. Citicorp, the most technologically aware of banking institutions, is thought to be spending \$1.5bn annually on computer hardware and software. Europe and the rest of the world is not far behind. In 1988, the 15 largest banks outside the US spent about \$7bn between them. The first five were the four UK clearing banks and Deutsche Bank.

Input, the US-based marketing consultancy estimates that the banking and finance sector will spend \$11bn on computer software and services in 1990 and that the rate of growth will average 20 per cent over the next five years.

This despite an overall softening in the financial services market which is now three years old and which is causing serious problems for hardware and software companies supplying financial systems. "Dead in the water" was how one services company chairman put it.

Some suppliers have had to radically reshape their operations to cope with the slowdown in the market. In the UK, for example, IBM's Computer and Graphics, the leading stock processing bureau, have had to develop software



Securities markets are introducing or upgrading systems to offer full electronic stock exchanges to security houses

packages and sharpen their systems integration skills to replace lost stock market business.

But the fact remains that important financial institutions cannot cut back on heavy computer investments without damaging their business. The demand for extra computing power (millions of instructions per second, or *mips*, is the industry jargon) is rising at 40 per cent a year.

International Business Machines, which is the main supplier of computing power to the world's financial institutions, reckons that demand for its mainframe computers chiefly from the financial sector is growing at 23 per cent a year or more at a time when demand from other industrial sectors is growing at less than 10 per cent a year.

According to Input, there are three principal opportunities for makers of IT equipment in Europe. First, electronic stock exchanges: "All the major securities markets are introducing or upgrading electronic

systems to offer full electronic stock exchanges to security houses," Input says.

Second, the redesign of back-office banking systems. This has been a great concern of the banks for some years now. Their customer files are based around account numbers, rather than customer names and profiles. To offer more sophisticated services, they will have to find ways of identifying their customers through, for example, the development of a relational database.

Third, new customer terminal systems will be needed to deliver the new, customer-oriented services.

However, senior executives of banks and building societies have serious concerns about their investments in IT. There are four principal areas:

- Effectiveness
- Cost
- Security
- Integrity

First, effectiveness. Many insti-

tutions have doubts about the effectiveness of their investment in IT chiefly because they do not have reliable methods of measurement. A recent study in the UK by the City University Business School showed that financial services companies still use cost benefit analysis and competitive advantage as the primary methods for evaluating their IT investment.

There have been some spectacular examples of IT projects abandoned through doubts about their value. In January this year, for example, the British banks quietly folded EftPos UK, a three-year-old company established to develop a unified debit card system.

It had been established after years of wrangling by the banks over the costs and benefits of a co-operative EftPos network. In the end, it was overtaken by the banks' own EftPos developments. When the banks blew the whistle, there were only 350 terminals operating in the scheme com-

pared with 80,000 for the bank's own developments.

Second, cost. Although the banks, building societies and insurance companies are committed to large expenditures on IT, they are hardly happy about expenditures now approaching 15 per cent of non-interest costs. There is, therefore, powerful pressure to get more value for money. Mr Thomas Steiner and Mr Diego Teixeira, writing in a recent issue of the *McKinsey Quarterly*, suggest that heavy expenditure on IT translates into increased profitability only when certain guidelines are observed. Unless the guidelines are observed, they say, the technological investment destroys profits.

Mr Steiner and Mr Teixeira suggest first that business strategy has to be linked to technological reality: they use as an example the electronic links insurance companies are now building between themselves and their independent agents: "No-one knows for sure

how the independent agency system will change under the weight of automation or whether its economic viability can be sustained in the long run," they suggest.

Their second point is that with increased automation there has been little innovation in management strategies. A "tight-loose" strategy is the answer they suggest. The policy should set some standards and procedures but also allow users the latitude to make their own choices when applications do not adhere to bank-wide standards.

Perhaps their most significant recommendation is to treat routine and distinctive automation differently. Routine automation comprises most bank computing today. It includes payroll, accounts, ledgers and so on. It also includes the basic networking systems for automated teller machines and cashless shopping networks. It is all essential to the efficient running of the organisation, but no institution could expect to get competitive advantage from it.

The strategy should therefore be to spend as little as possible by using tried and tested technology and sharing the cost with competitors wherever possible. It remains to be seen whether the UK banks have done the right thing by abandoning their collaborative effort on cashless shopping.

The third concern, security, is now central to banks' strategy for networking and the electronic transmission of funds. Reports of breaches of the security of bank computer systems are now routine. Almost \$500m was lost through computer fraud in the UK in 1989 according to recent reports.

Very few computer frauds are perpetrated by skilled hackers breaking into data communications systems. Most are carried out by employees who know how the system works and the passwords to gain entrance.

The fourth concern is integrity. If a time-critical business such as banking depends on a computer system, then it is vital that system is available at all essential times.

It has become particularly important with a move to on-line transaction processing (OLTP) systems which are nec-

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essary if a bank is to offer on-line services such as cashless shopping. Banks are significant users of "fault-tolerant" computers of the kind developed by Tandem and Stratus, both of the US, which continue running even if essential parts break down and which protect the data they are processing even in the event of a catastrophic systems failure.

A new threat to the integrity of a computer system is the "virus", a software program written with the explicit purpose of doing damage to the system. Viruses are hidden somewhere in the system software until triggered when they replicate themselves extensively eventually bringing the system to a halt.

Viruses are a particular danger in networked systems where they can spread from one machine to another at high speed. The only answer to the virus threat is a high level of system "hygiene": only software from trusted sources should be used.

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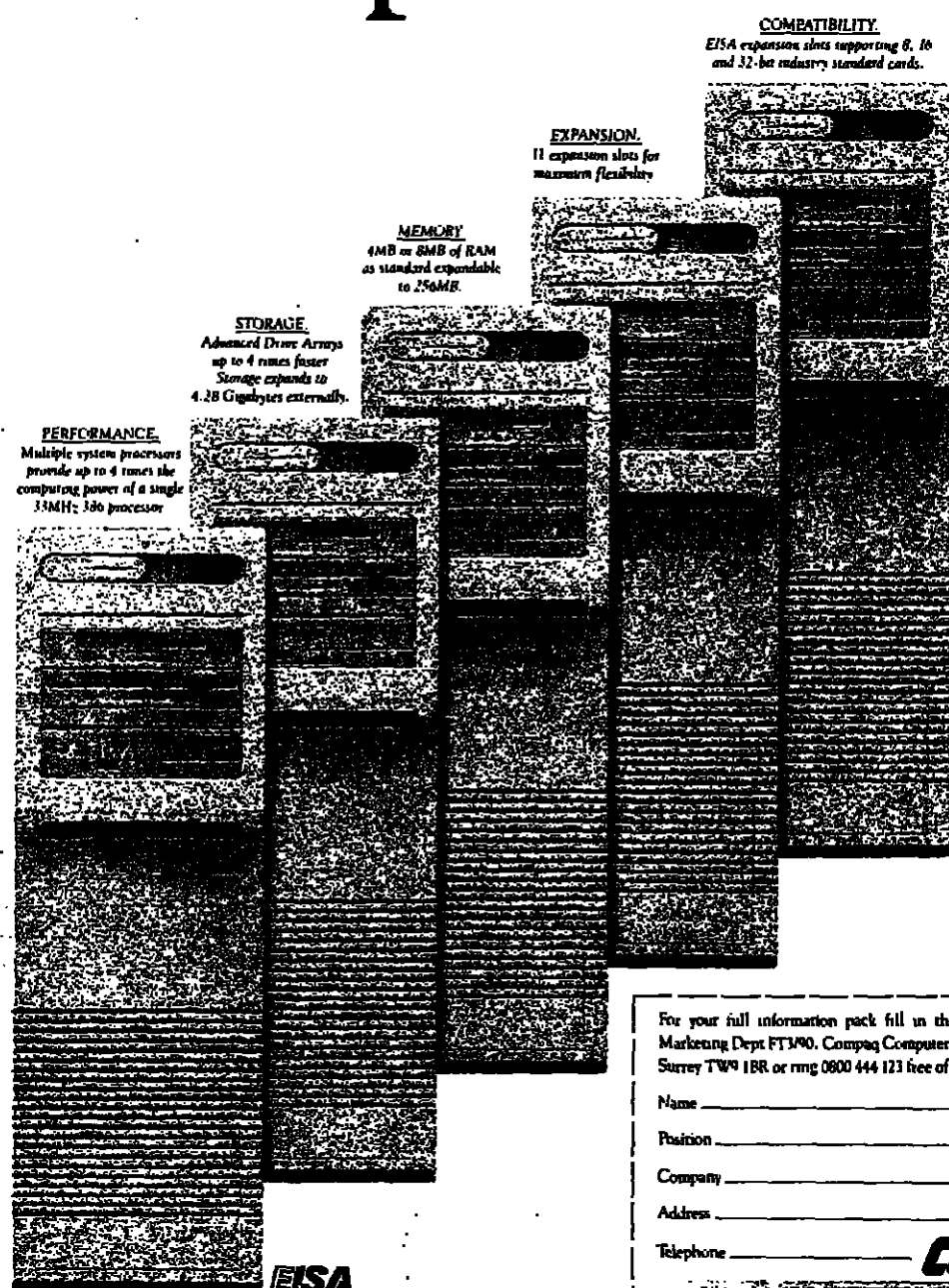
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## INFORMATION TECHNOLOGY IN FINANCE 2

## TAURUS

## Solution to settlement

WHILE A great deal of effort has been put into applying technology to the trading operation, settlement has been neglected until recently. This is now changing with the growing realisation that there is no point in doing more deals if the settlement procedure remains a laborious bottleneck.

The problems associated with settlement loom even larger on the international scene since almost every country has its own and idiosyncratic local settlement procedure.

While international trades can be done in a few seconds with a simple telephone call, settlement of that transaction can take weeks, or months or never be done at all. It is estimated that at least 40 per cent of international trades fail at the settlement stage. Even if they are completed, the length of the process imposes unacceptable exposure risks on investors, brokers and banks.

The Group of 30, a club of the world's leading institutions operating in the securities industry, established a committee to examine this problem and its report was published in March last year. The thrust of its recommendations was for harmonisation of settlement procedures in each market, coupled with increased automation. They also recommended the establishment of a central depository to immobilise or dematerialise share certificates.

In London the International Stock Exchange was already painfully aware of the importance of automation following the 1987 surge and crash during which settlement problems seriously clogged the market.

Its response, an electronic share registration system and the elimination of paper certificates, goes further than the G-30 recommendations and most other countries' intentions.

The plan for the system, called Taurus (Transfer and Automated Registration of Uncertificated Stock), has now been finalised and is scheduled to begin operation in

October next year. Participants, including brokers, banks, institutional investors, custodians and share registrars will be connected electronically to the ISE's computers and to each other via the Stock Exchange's own communications network. The record of share ownership will be electronic, and when a share is bought or sold, transfer of ownership will take place electronically, so eliminating the laborious certificate-moving operation associated with the existing system.

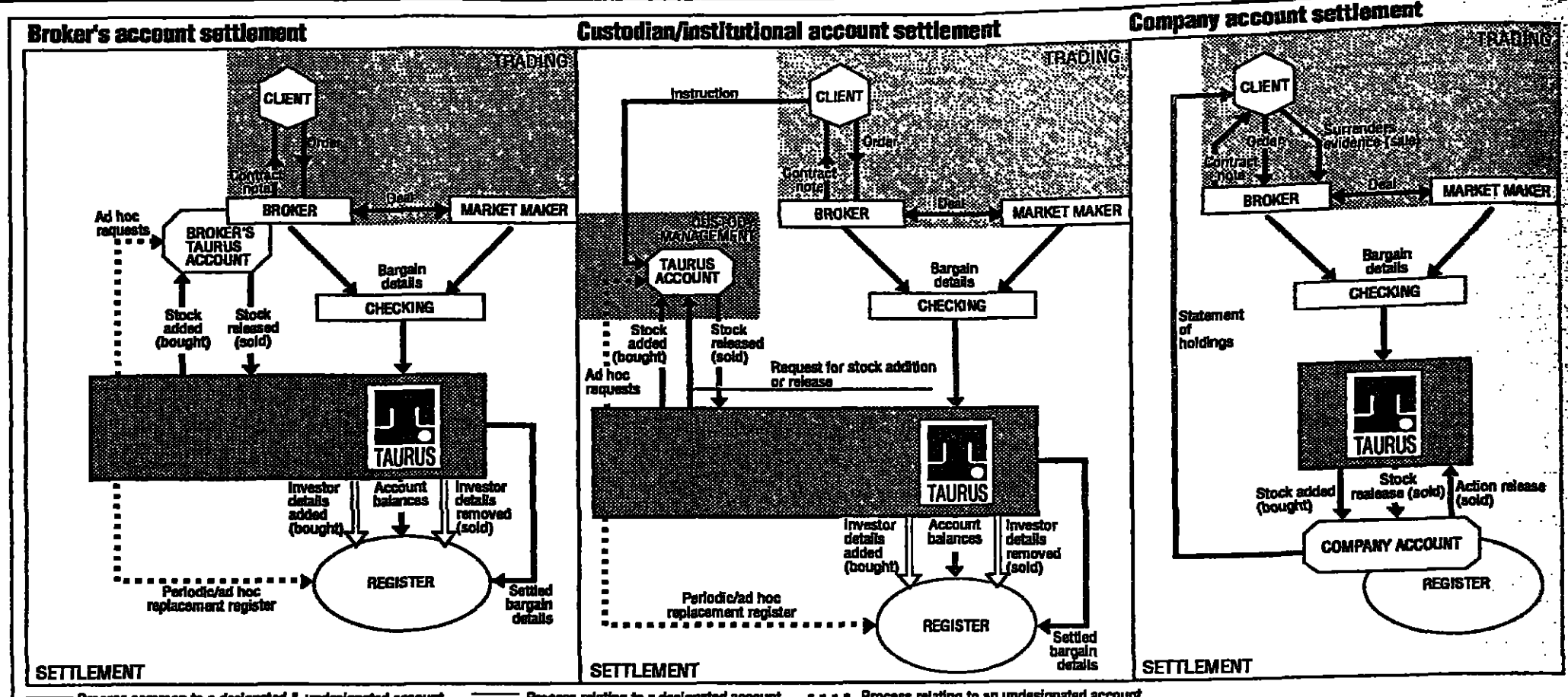
The participants will each maintain accounts on the ISE's computers. These will not show individual share ownership but will show totals held by each participating institution and be available for book entry block transfers to the accounts of other participating institutions.

The actual details of individual share ownership will be maintained by the institutions themselves, such as brokers, banks and other custodians which will provide this service on a commercial basis, paid for directly or indirectly by the investors. These institutions will be called commercial account holders, each of them holding one or more block

## A long term aim must be global electronic settlement

accounts in Taurus. Companies themselves will also be able to provide this service for their own shares through another type of account, the company account. Investors who do not want to have their holdings locked after a commercial institution can have them added to the company account.

When shares are bought or sold, the broker reports the transaction electronically to the Stock Exchange's Trade Comparison Service and to Taurus. Included in his instructions will be details of where the shares are recorded



and the transfer of the record of ownership from there to wherever the buying investor chooses to keep his or her shares. The Taurus system will complete the book entry transfer of the appropriate number of shares between the institutions' accounts. Communications between all the participants take place electronically via the ISE network.

Account holders will be obliged to advise company registrars of these transfers on a regular basis so they can update their records. This advice will also be electronic. Taurus is being developed on the ISE's new IBM 3090 Series J computers. Communications between participants and between participants and Taurus will be over the Exchange's own X.25 network. They will use proprietary X.400 type file transfer software, which allows participants to connect their own computers to the system, no matter what make they are, and exchange information with other computers on the network.

When Taurus goes live in October 1991, only a number of the most actively traded alpha

securities will be on the system at first, with other shares being added over a two year period. During this time, Taurus will run in parallel with the existing settlement service, Tallman, which is used by ISE members.

Tallman is itself computerised, although it still involves physical transfer of share certificates, and for many future Taurus users the new service can be built on top of existing systems.

Institutional investors are also getting used to a form of electronic settlement, since many of them use the INS (Institutional Net Settlement) system, which allows them to settle on a net basis with the Stock Exchange instead of with each other. In January this year INS went fully electronic, with direct communication links to the Exchange via the X.25 network replacing paper reports.

A long term objective for the securities industry must be global instead of national electronic settlement. At the moment, international settlement is carried out by sending settlement details to an agent

in the centre on whose Stock Exchange the shares are quoted.

This local service is carried out by branches of the larger securities firms, by local firms with which the broker has a relationship, and by banks and brokers which offer a commercial global custody service using a network of local branches and agents.

The institutions involved use technology of varying sophistication to send details to the settlement agent, from telex

and fax to global communications networks such as Swift and the proprietary networks of the larger banks and brokers.

Several Stock Exchanges have also set up bilateral electronic links. For example, the ISE has settlement links with the Mid-West Clearing Corporation in Chicago and with the National Securities Clearing Corporation in New York. Settlement details are transmitted via a dataline for processing in the appropriate centre on a net

basis, with each stock Exchange guaranteeing its members' transactions. A new scheme with the West Canada Depository Trust Company is at the pilot stage.

However, despite these initiatives between individual exchanges, truly global electronic settlement remains a distant prospect because of the enormous differences in settlement practices as well as technological sophistication in each centre. Among the G-30 recommendation to narrow

this gap is the adoption of a three-day rolling settlement cycle which the ISE intends to do once Taurus is operational.

As other countries around the world adopt similar conventions and move towards immobilising or dematerialising their own share certificates, global settlement will become more feasible. With Taurus in place, the ISE in London would certainly be well-placed to support any such developments.

Sean Hoath

## RETAIL BANKING

## Changes mean increased data

RETAIL OR "product" banking has seen wide-ranging technological changes over the past few years. For the customer, the most visible has been the growth in home banking and the use of automated teller machines (ATMs).

The new technologies have been driven by the need to remove practical constraints, making banking more of an information business than solely a transaction processing one. This has required a commitment in meeting the different needs of the banks' operations.

Citicorp's consumer banking has centred on a philosophy of "relationship banking". Mr Paul Cohen, Citicorp's UK business manager sees this as viewing the customer not merely as an account, but in terms of "the number of relationships the customer has with the bank".

The policy has been exported with Citicorp's IT products throughout its overseas branches. An example has been the development of its own ATMs, or "Customer Activated Terminals" (CATs) distinguished by touch and coloured screens as well as a multi-language voice production facility.

In the back office, the bank's mortgage division, Citicorp Mortgage, has used Document Image Processing (DIP) to automate its paper flows, making for more efficient file movements. Olivetti (UK) was chosen as the vendor, allowing handling capacity of 2m pieces of paper a year by 1991.

Citicorp is also in the process of centralising its data-processing and has already cut its processing centres from four to two.

In the UK, domestic retail banks are notoriously cautious of revealing the precise details of their IT strategy. Barclays is rethinking its automation, but has so far remained hesitant of exploiting consumer-friendly

technology. The bank hopes to save around 25,000 jobs by reducing back office functions, enabling greater flexibility up front from counter work.

Internal computing has been organised via a third party maintenance (TPM) contract with Olivetti for a number of years. TPM has given the bank some control, while its technical operations have been maintained by an outside body or agency.

Most of Barclays' reinvestment in hardware has been in replacement. In past two years, Barclays has developed general purpose multi-functional workstations at its branches, allowing wider information delivery to improve its capacity to handle enquiries.

Most of the progress at Barclays has been in enhancing the software of accounting systems, making for more flexible facilities and better product development lines.

At the branch level, the payment system has been upgraded by better back office branch-processing and structural interfacing, that is building the link between customer and various data processing centres. Examples have been the automated dispersals of receipts to open up the prospect of a European-wide payments system by 1992.

However, Barclays' policy remains piecemeal. Prepared to watch developments in the market, it so far has remained on the sidelines of home banking, as yet unsatisfied that the outlay is justified. Mr Eric Chilcote, head of electronic

banking at Barclays describes the bank's policy as "conditioning investments to the development of demand".

The use of home banking has been a conspicuous development of the past few years. NatWest's Actionline has around 31,000 users and offers round the clock access via tone pad and voice response.

Midland's FirstDirect offers a

**Banks are playing a greater role in determining their IT needs**

human voice response, again conducted via the telephone. However, by the end of 1989 only 11,000 new accounts had been created, making advertising costs alone an average \$500 spent per customer. Other examples have been Trustee Savings Bank's Speedlink service, which started operating in the summer of 1987 and has around 250,000 users. Developed by Autophone, it lets the customer talk to bank's computer using the tone produced by most modern push button hand sets.

National Westminster Bank has maintained a supply and service contract with National Cash Register for its till operations for a number of years. Some branches still operate their old Burroughs system, but home loan processing has increasingly been performed on Unisys software. The bank, however, is reluctant

to opt for one standard package. As Mr John Bignell, deputy general manager of IT at NatWest says, "we tend to not want to put all our eggs in one basket".

NatWest has also centralised most of its accounting operations, but has been caught in a dilemma between physical and logical considerations. Logically, according to Dr Peter Jackson, head of the IT development department at NatWest, the bank would like to centralise all its processing, but physically this has proved impossible. The result has been a compromise by setting up a number of processing centres, operating with the branches.

Lloyds believes that increased automation will make the banks more flexible to customer requirements. Home banking is an extension of this idea, allowing customers the opportunity to carry out financial transactions from the comfort of their home. Similarly, the bank hopes to bring its customers into the branch, rather than to ATMs which carry out around 60 per cent of its withdrawals outside on the bank's walls.

For the banks, price is not the only consideration, but also important is the effectiveness of the technology and how fits into their own strategy. What is becoming evident is that they are playing a greater role in determining the shape of their IT needs. Monitoring the effectiveness of the new technology is in itself open to much interpretation and subjectivity. The final decision is inevitably a compromise, between need for security and need to keep the package consumer-friendly. However, to date, the customer has been making the play, with many of the banks having learnt from getting their fingers burnt after their foray into home banking.

Robert Allids

## I'VE GOT MY PERSONAL IDEA FOR A PERSONAL COMPUTER.

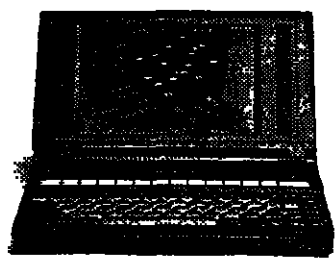
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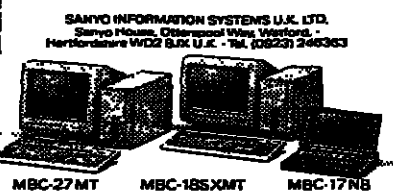
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## INFORMATION TECHNOLOGY IN FINANCE 3



The NatWest dealing room: heavy processing is flashed back to central mainframe computers

Screens in the City are becoming less cluttered with information

## Dealer data starts to shrink

FROM NEXT Monday Union Bank of Kuwait (UBK) has a new dealing room. Its 45 foreign exchange dealers and fund managers will be sitting in front of screens in Baker Street. The move will bring UBK closer to its traditional customer base in west London's Arab community. It will also see the dealers getting to grips with a new perspective on market information.

UBK relies on market data from Reuters and Telerate. Information from such sources has traditionally arrived in video format. The subscriber buys the service and the dealer receives pages of prices in a fixed form. With the explosion in market trading during the 1980s, dealers began demanding more than a glorified electronic mailbox and digital feed was born. Digital feeds deliver raw data that can be tailored by inhouse computer systems to suit the customer's priorities.

In common with most dealing floors today UBK has the digital option. But with the move to a fresh site, UBK took the opportunity to upgrade its existing equipment.

The idea was to get the right data to traders in a clear and concise form. UBK had terminals linked in a system supplied by Lynwood Scientific. Digital Equipment Vax mini-computers provided the processing power. But the bank was determined to do more with its expensive feeds from the information providers. As Mr Chris Butt, project manager at UBK puts it: "It's one thing to have the data, it's another to process it."

Dealers at the new site were going to go further with their digitally acquired data. Every one would have a powerful 386 based personal computer, with the Vax computers remaining in the background.

The front end was chosen as Citydesk, a programme that takes data from digital feeds and converts it into graphics. Simple graphics are a sensible way to cope with information overload in a fast-moving market. Citydesk is not a high-profile product, it comes from ACT Financia and was written specifically to work with Microsoft Windows, a common PC utility.

By choosing a piece of PC

software as the heart of its dealing room, UBK bucked the trend established by dealing room vendors. Companies such as Micrognosis and Data Logic have risen to prominence by installing entire dealing rooms. Computer hardware and software are tied together and delivered complete with the redesigned trading floor, down

**Less spectacular packages are now providing what the trader needs**

to the high-tech desks and swivel chairs.

Open Systems, uniting hardware and software from different makers, became a touchstone. Software tool kits, allowing banks to customise popular systems, caught on quickly as means to a competitive edge. Powerful workstations, such as the sun range, were perceived as the vehicle for accomplishing extremely complex transactions in seconds.

But behind these impressive

deals some banks were harbouring doubts. Did every single dealer need all the services on offer? If only one in five of traders bothers to use the system to manipulate large chunks of data, why buy expensive workstations for the other four?

As the initial burst of enthusiasm for digital feeds subsided so did the desire to have a screen cluttered with data from every source available. A crowded screen hinders decisive action even if its contents have been filtered through the best technology.

Suddenly the real need was for smart software that let the dealer go back to basics. One software house, Aregon, had specialised in programmes that helped users keep pace with other people's products. Aregon's Financial Information Systems Toolkit (Fist) converts signals from any source into one format that the dealer's computer recognises. It is reckoned to beat conventional data routes by five minutes — a big lead for market traders.

Fist is used by Sumitomo Bank, Credit Lyonnais and Kleinwort Benson.

Dealing room specialist Aregon was bought out by Kipiti, an established supplier of big banking systems for the less glamorous back office. Kipiti management were shrewd enough to spot a new direction in dealing room systems, and acquiring Aregon bounced Kipiti back into the frontline of technology.

Less spectacular packages are now providing what the dealer needs. The popular Lotus 1-2-3 spreadsheet has spawned Lotus Realtime. This takes data feeds and connects them to the 1-2-3 spreadsheet without any rekeying from the dealer. It saves time, serves up-market information in a familiar format and costs £1,000 per position.

This is small beer in the world of multi-million pound deals but the unambitious well-targeted products are making a visible contribution to the trader's day. And with annual subscriptions to Reuters running at around £14,000 per dealer, banks want to squeeze the last drop of value out of their feeds.

The big sites are still opening. National Westminster spent several million pounds putting together a dealing room in London's Broadgate centre. Unveiled earlier this year, the 200-position floor features screens from Financial Trading Technology. An alternative to costly high-powered workstations, the flash heavy processing bank to central mainframe computers.

Mr Ian Johnson, senior manager in capital markets at NatWest, still recognises the shift towards modest software packages. "We're developing our own interest rate management systems for PCs."

"The vendors have to sell to a range of customers so their packages only do 70 per cent of what you want. There is always room for small sophisticated programmes to fill this gap."

It is a lesson that has not been lost on Reuters. On October 10 it signed a worldwide distribution agreement with ACT Financial. UBK is in good company. Reuters will be selling Citydesk to banks that want more for their money from the exclusive club of information providers. Technically literate dealers are steering away from the crowded screen. The era of users telescoping the right quotes on to their terminal is here. And after the past decade, the means are proving surprisingly cheap.

Michael Dempsey

## BANK SETTLEMENTS

## A systems challenge

GLOBAL CUSTODY was one of banking's unsung growth areas until it was discovered during the settlements crisis which followed the 1987 world stock-market crash. It is a complex business which is heavily reliant upon the application of information technology; but even its basic functions remain little understood.

The product was developed in the 1970s when changes in US pension fund law encouraged the diversification of assets outside the US as a responsible fiduciary policy.

As large funds began to invest in overseas markets, they quickly found they needed help to settle and reconcile their securities dealings abroad with their traditional domestic portfolios. They turned to their banks for help, and almost by accident global custody was born.

From the start, bankers realised that the processing required in a settlement chain was perfect for the application of computers. Customers would send their transaction instructions, usually by telex, and the custodian bank would pursue settlement, report back to the customer and then undertake a range of ancillary tasks, such as collecting dividends, reclaiming withholding tax and executing foreign exchange transactions.

In the later 1980s, companies such as Filat began to market what was hailed as the electronic solution to the settlement challenge, but the concept proved to be a few years ahead of customer demand and the projects failed to gain critical mass.

Today, however, custody is a model of high-technology banking. Banks such as Chase Manhattan and Citicorp run their custody from state-of-the-art processing centres which handle orders and information flows from around the globe. For example Chase operates an ultra-modern processing centre in Bournemouth in southern England which has the capacity to take huge volumes of portfolio instructions and foreign exchange information.

In the near future, the leading custodians will be able to offer a single electronic network linking customers to the processing unit and back via

reporting modules in a seamless web of instruction and action.

Custody is also a model of how technology has changed the nature of banking. In its early days, it was given a low status, regarded as a back-office function requiring second-rate management skills. Today, in a world where banks are struggling to maintain their capital ratios in the face of bad loans and economic gloom, the virtues of a business which brings in fee income and has a high return on capital employed are widely recognised.

In fact, the main capital investment required for an international custody business is directed towards systems. Looking back, bankers now find it hard to imagine that they managed in the early days, when systems were rudimentary and could often be prone to design faults.

**Today, custody is a model of high-technology banking**

Initially, the challenge of multi-currency accounting and reporting functions proved daunting. Some US banks which led the development of the global custody product struggled to build multi-currency systems and went through phases where they fell behind their international rivals. The settlement environment was and largely remains chronically inefficient, with markets requiring a bewildering range of settlement practices.

Today, the challenge lies in installing and maintaining the advanced systems needed to give a custodian bank the competitive advantage over its rivals. Speed and accuracy of processing is the key to a successful custody product, but the trials of developing systems has meant that only relatively recently have custodians been able to claim a reasonable track record.

The industry tends to focus its debate about systems on whether systems are better developed in-house or pur-

chased from the growing range of off-the-shelf products available from highly competitive and responsive software houses.

Like many debates, this is essentially a sterile argument because what works for one bank might be inappropriate for another. The debate also falls foul of the truism that fast-moving technology means that a system is no sooner installed than it is out of date.

Take a package such as the VSPS system developed by Vista Concepts for the custody market. It gained good publicity when Midland Bank, the UK clearing bank, purchased VSPS for its global custody arm as part of a much-heralded shake-up of what was seen as an anachronistic and inefficient product.

Midland made no secret of the fact that it was attracted by price as much as functionality, although its managers did express the view that they had found it hard to envisage building a successful in-house system given the track record of such banks. The VSPS system had previously been developed for Bank of New York and offered a competitive alternative.

The problem with off-the-shelf systems is that the customer has to accept any limitations it contains. Packages can be extensively customised, and indeed there is a flourishing market in buying systems architecture and adapting it to the purposes of the individual bank. Once up and running, however, an outside product tends to be slightly less flexible than a proprietary system.

Only recently, however, have dedicated custody systems appeared. Early products tended to be built around fund management systems and proved inadequate for a custody business where safekeeping and settlement were central functions.

Alongside custody products, banks can now choose from a range of investment service products. Reuters, for example, offers Instant Link, a global trade management service currently used by around 200 customers whose international equity trades are run through a single system.

Andrew Freeman

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## INFORMATION TECHNOLOGY IN FINANCE 4

Financial developments are creating technological demands

## Wholesale sector faces change

WHOLESALE BANKING is undergoing an upheaval. In the 1980s, new financial packages, particularly off-balance sheet instruments, have placed increased demands on the technology. Squeezed margins are making the banks require the new technologies to monitor closely the profitability of their products.

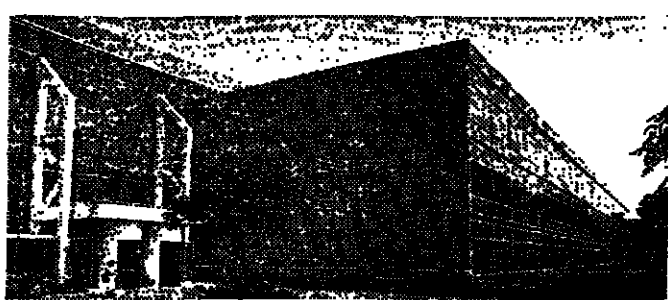
As a result, a fundamental rethink has been required in order to assess their technological needs. So what have the banks done in order to cope with these new demands?

The technological problems facing the banks are colossal. According to Information Solutions, a market research company, the banks require an effective Management Information System (MIS) on a global basis to adequately assess profitable and non-profitable sectors.

They also need to develop processes to monitor risk via centralised systems, in order to provide a risk adjusted profitability analysis. Finally, any system that hopes to be able to support 24-hour trading requires real time data on all accounts, limits as well as positions.

Hardware continues to be dominated by International Business Machines, particularly among the medium to small-sized banks. Software houses are more numerous. BIS Midas has the biggest UK market share - apart from in-house developed systems - at 15 per cent, according to an unpublished survey by Information Solutions. BIS has clients in 67 countries around the world, the company itself being a wholly-owned subsidiary of Nyx.

The most significant development has been the use of the Clearing House Automated Payment System (CHAPS). Since 1984, CHAPS has established an electronic credit transfer system for large value items to replace the paper-based Town Clearing system. This need for CHAPS reflected the existence of a greater competition between banks, the growing demands on wholesale payments system by the securities and foreign exchange markets and the growing internationalisation of banking and finance. However, progress so far has been some-



Chase Manhattan's new state-of-the-art centre at Bournemouth

what slow and hard fought.

Closed processing has given way to "open systems", enabling users to run the same operating system across a variety of hardware from various suppliers.

Unix is an important operator in this technology, but to date its impact has remained limited. Most banks who can afford it are making the transition, despite the technological minefield.

Other software products in this area have included Sglis by EBS, The Global Trading System by Global Trading Systems (Europe), HAI Bank

including 2,700 banks, 70 per cent use the technology from the company's Swift Terminal Services unit which is based on Unisys, Digital Equipment or IBM.

Barclays is investing in conversions to Swift II, and is already using Swift's own FT200 and FT400 interface systems. NatWest uses its own DEC-based package which was developed by Data Architects and is run on Tandem hardware. The UK window for cutting over to Swift II is set for next spring, and both Barclays and NatWest believe that they are well prepared for the change.

The use of 4GLs, or "relational databases" has increased over the past decade, but its benefits remain a point of dispute. The enthusiasts believe that the 1990s will see an extension of their importance. Conversely, the sceptics argue that the process is crippling expensive and too complex, outweighing any final cost advantages.

NatWest uses 4GLs, but is reluctant to employ them for highly sensitive data. As Dr Peter Jackson, head of development of information technology at NatWest, says: "So far there are no bona fide fourth generation languages."

Of the US banks, Chase Manhattan has just undergone the second inauguration of its administration and processing centre in Bournemouth, England, at a total cost of \$55m.

The new centre at Bournemouth offers state-of-the-art technology, and should keep Chase first in the field of global custody. IBM and DEC processing platforms provide the central core hardware, while services are being supplied by

Token Ring and Ethernet.

Within the bank, Chase is seeking to integrate back and front office operations, without eroding in the process the distinct needs of both applications. Both share common databases. The bank uses IBM 3090s mainframes which are supported by Natural, a fourth generation language.

Glitcorp Information Resources has developed its own software series, and has supplied to over 100 customers in 22 countries on five continents.

Its International Comprehensive Banking System (ICBS) is a real time, integrated software product that consists of a number of features, including a customer verification file, proof of deposit analysis as well as a general ledger and a universal loan facility. So far in this country the system has been sold to the Heart of England Building Society and the HFC Bank.

In the UK, Barclays is investing in automated delivery between the customer and the bank. EDI is increasingly being used for cash management to rationalise processing requirements.

The UK-based first phase has already been completed, with the second planned to be finished next year. The new technology should enable cash management to include currency account reporting, driving paper more efficiently, and hopes Mr Eric Chilton, head of electronic banking at Barclays, prepare the bank for the single market.

The new technologies that are open to the banks should eventually lead to a more integrated system of processing transactions. For the corporate customer, the banks have become more of an information provider than purely a transaction processor.

Security of transaction processing remains a main consideration, and has stopped the more technically complex products being adopted. But the bandwagon is becoming crowded. As Mr Steven Wolinsky, vice president at Chase, says, "computer power will be cheaper, but the overall cost to the banks of technology will be higher as the cost of entry increases".

Robert Ailds

## TELEPHONE BANKING

## Others show an interest in Midland idea

WHEN MIDLAND Bank launched its First Direct subsidiary in September 1988 it was the only UK bank which could be contacted only over the telephone. Today Midland is still the only bank to offer this service.

For the Midland subsidiary, the move to do away with the local branches radical though it appeared at the time, seems to have paid off. At the end of June this year First Direct had 60,000 account holders, putting it on target for a year end total of 100,000, says Mr Mike Harris, chief executive of First Direct.

Now other banks are beginning to show an interest in this novel form of banking, says Mr Harris. He predicts that by the end of the century 30 per cent of bank customers will be using this type of telephone banking service.

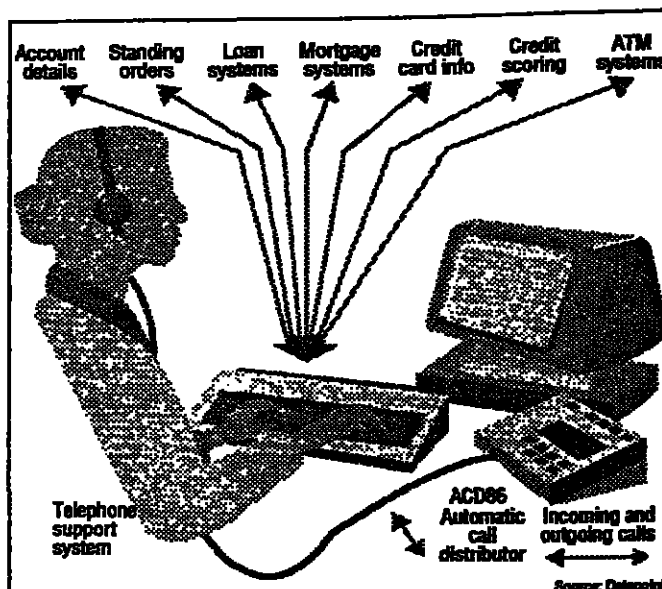
Paradoxically, Mr Harris attributes the success of First Direct to what he calls "real personal service". He explains that because the bank is open for business 24 hours a day, seven days a week, each First Direct "bank clerk" has to have all the information on every customer at his or her fingertips.

"We have to talk to them as if we've known them all their lives," says Mr Harris. "It's like walking into a bank a few years ago when everyone knew who everyone else was. It's very reassuring."

To enable the First Direct employees to do this, the bank has installed the sort of computer and communications system used for direct marketing services, where data on any customer can be called up by the bank staff. Services available to customers include payment of bills, the arrangement of personal loans or the ordering of foreign exchange.

That said, Midland is not the only bank to realise that it is in its interests, as well as those of its customers, for inquiries to be made over the telephone from the comfort of a warm office or a home armchair. It cuts down the queues in the branches, for example, and reduces the paperwork.

As a result, telephone banking - where account holders pick up the phone to interrogate their bank's computer system and are answered by a recorded voice - is viewed by many as potentially one of the biggest technological developments in retail banking in the next decade. Mr Robert Far-



First Direct's 24-hour service seems to be paying off

brother, managing director of Nexus Payment Systems, for example, says telephone banking will be as popular in the 1990s as ATMs proved to be in the 1980s.

Since the launch of the first computer banking service about three years ago, about 20 of the UK's 630 or so banks and building societies have launched services. Between them they have nearly 1m customers. Institutions offering such services include National Westminster Bank, Northern Rock Building Society, National and Provincial and Girobank.

In many cases it has been the smaller building societies, rather than the big banks, that have embraced telephone banking most enthusiastically. Eager to claw away personal bankers from rival banks with their newly-launched current accounts, the building societies saw telephone banking as an

extra marketing tool. The Halifax, for example, introduced its service along with its Maxxim cheque account in October 1988.

An added bonus for the smaller building societies is that it mitigates their limited geographical presence.

Technically, many banks and building societies have found the introduction of telephone banking easy. Those which have cashpoint systems linked to fault-tolerant computer systems, from companies such as Tandem or Stratus, already have a system whereby the computer is interrogated for, say, the latest balance.

So they can set up a similar procedure for telephone banking, installing a piece of equipment called a voice response unit between the computer and the caller. These voice response units take the "bleeps" made by the push buttons of a modern telephone

and translate them into the digital pulses recognised by the computer system. So the computer is persuaded that the voice response unit is an ATM machine.

National Westminster Bank, for example, has set up a more complex system installing a Tandem computer system to sit in front of its traditional accounting machines. That Tandem machine is connected to the National Westminster private telephone network, on which are sited five voice response units in the major urban centres.

For the customers there are three ways of banking from home. The simplest is by pushing the buttons on a modern telephone. The customer communicates the account and identification numbers and then by pressing a further series of numbers - one for balance, two to order a cheque book and so on - the enquirer can tell the computer to carry out specific tasks. In order to pay bills customers have to go into their branch and set up the documentation. In a similar way to setting up a standing order, and then fill in the electronic payment forms by tapping in the digits.

For those without modern telephones, banks and building societies can also supply tone pads, small electronic units which imitate the bleeps made by the phones.

Far more adventurous are banks which have opted to use voice recognition units, which actually listen to the caller, and respond. Although horror stories about these sort of systems abound - that they have problems recognising the word "four", for example - the technology is fast improving.

However, most banks admit there will always be up to 20 per cent of bank account holders whose voices will be unrecognisable by the systems. Voice recognition units are slower to use than touch tone phones or keypads and could lead to security problems. If a call was made from a public place, such as an office, the numbers could be overheard. That could be a particular problem as many calls are made from the office between 9.30 and 10.30 on a Monday morning - all from customers eager to find out whether they have overspent during the weekend.

Della Bradshaw

Banks are trying to entice customers back inside the shop

## ATMs move into the lobby

BANKS AND building societies which spent the 1970s and 1980s pushing their customers out into the high street will spend the 1990s trying to entice them back into the shop.

It is as a shop for financial services - insurance, mortgages, Personal Equity Plans (PEPs) - that they want to be known, not as doleers-out of cash.

Knocking holes in walls to install cash dispensers, or automated teller machines (ATMs), enabled them to cut back cashiers and thus save money. Self-service for cash is as much a fact of life now as self-service for groceries at the supermarket.

It might seem, therefore, that the ATM market is near saturation point. Yet the number of withdrawals from ATMs in the UK rose 14 per cent to 820m last year, according to the Association for Payment Clearing Services, and will reach 1.4bn in 2000. The number of ATMs installed in the UK also grew by 14 per cent last year to keep pace, but the increase will slow gradually.

The institutions have now realised that the prevalence of ATMs means that they rarely see most of their customers these days and they need to see them more.

So a fair proportion of the latest generation of ATMs is being placed not out in the high street, but in lobbies and vestibules where the financial institutions can market other services.

There may well emerge a two-tier system among self-service machines: the high street dispenser for cash and the lobby machine for other services which take a bit more time and thought.

There is no technological reason why the lobby machines should not be able to deal with a wide range of financial products. Mr George Tait, marketing manager for the financial products division of NCR, the leading supplier, says that the second tier of machines should not be called ATMs but ASTs, that is automated service terminals. These already provide ser-

vices such as issuing account statements but they could also offer to transact holiday payments, foreign exchange, motor insurance, travel insurance payments for sending flowers and many other routine tasks which do not need to be carried out by a human.

Most bills could be paid via an AST and probably many soon will be. Today's technology can do this. It needs only the appropriate agreements between the various organisations.

Bill slips could be fed in with a plastic card, a receipt issued and payment carried out

and Royal Bank of Scotland) - and a few smaller ones.

There is no real competition between them; for instance, Clydesdale belongs to both Link and Mint. It seems probable that there will be soon be effectively only one national network, as individual institutions make more and more reciprocal agreements to allow their customers to use cards from either.

Competitive edge for the institutions will then consist mainly in offering different services through the same networks and the same self-service machines.

**Fewer banking staff will be required as ASTs spread, but those remaining will require higher skills**

Instantly, "it's not a quantum leap to do this," said Mr Tait.

The aim of the financial institutions is to transfer as many mundane transactions as possible to automation and to leave their counter staff free to deal with the matters which require reflection and judgment, such as life assurance or mortgages.

Clearly there will be ever fewer banking staff as ASTs spread, but those that remain will require ever higher skills. The other important growth area for ATMs is through installation in sites away from the bank or building society: at supermarkets, petrol stations and motorway service areas, as well as into company premises where the companies, not the financial institutions, run them.

Because of the falling price of the machines, employers are now able to offer them as a service to their employees.

With the merging of the Matrix and Link networks last spring the notional rivalry between the networks has receded even further.

There are now only three large networks - Link (mainly the building societies), Mintlink (National Westminster Bank, Midland Bank and TSB) and 4-ATM (Lloyds, Barclays

It is not generally appreciated that there is a charge levied on your bank or building society by another institution if you use its ATM. Banks are therefore reluctant to advertise the fact that it is possible to draw cash elsewhere because they stand to lose out by the spread of this knowledge.

Because such inter-bank transactions are confidential, little is known about which institutions if any are gaining any real competitive advantage through the networks. But it seems clear that the largest must benefit while the smaller are being squeezed.

The Single European Market will bring the advance of the Eurocard and more services for travellers. Already it is possi-

ble to take a plastic card and draw francs in France and have it debited to a sterling account in the UK when the francs are drawn.

This is a useful service which the institutions do not widely advertise because it avoids the need for travellers' cheques, for which money is paid in advance.

Many financial institutions still do not use real time technology to their retail business. The reason for the commonly enforced daily limit on withdrawals is that account updates are carried out during the night. There is likely to be growing pressure to go over to real time systems from retailers who want to access their money more quickly.

As ATM prices keep falling and the machines become commodities, competitive edge for their suppliers is to be gained in two ways: first, by developing products to allow their institutional customers to achieve differentiation through new services; and secondly by constantly improving availability - that is, the amount of time when the machines are not out of order.

ATM suppliers are therefore directing much of their efforts to developing systems which can reduce the frequency of such mishaps. By the turn of the century, it can be confidently predicted, a new generation of ATMs will be offering a much wider range of services and the earliest ones will be featured in the Science Museum.

George Black

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Model	Hard Disk	VGA Colour
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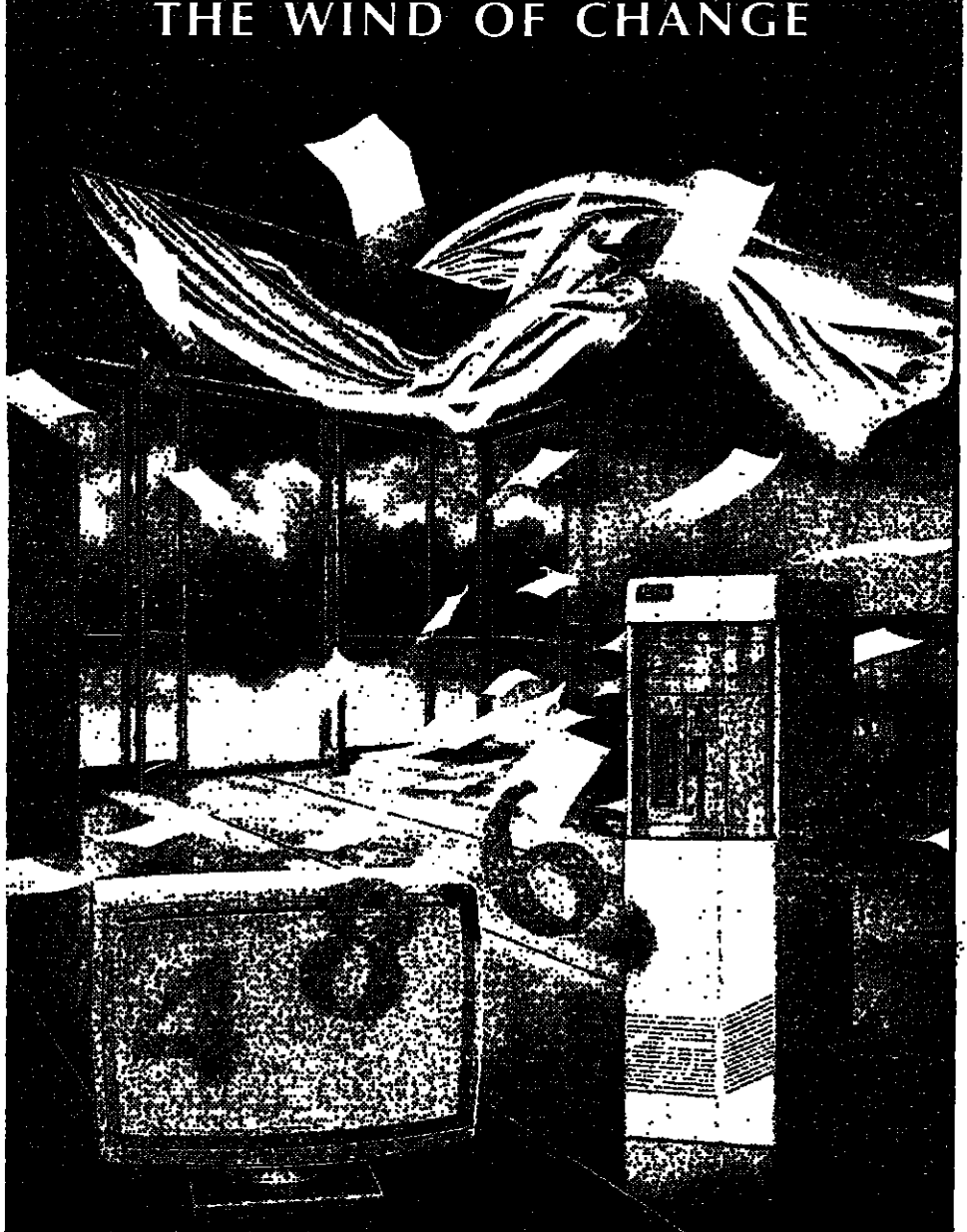
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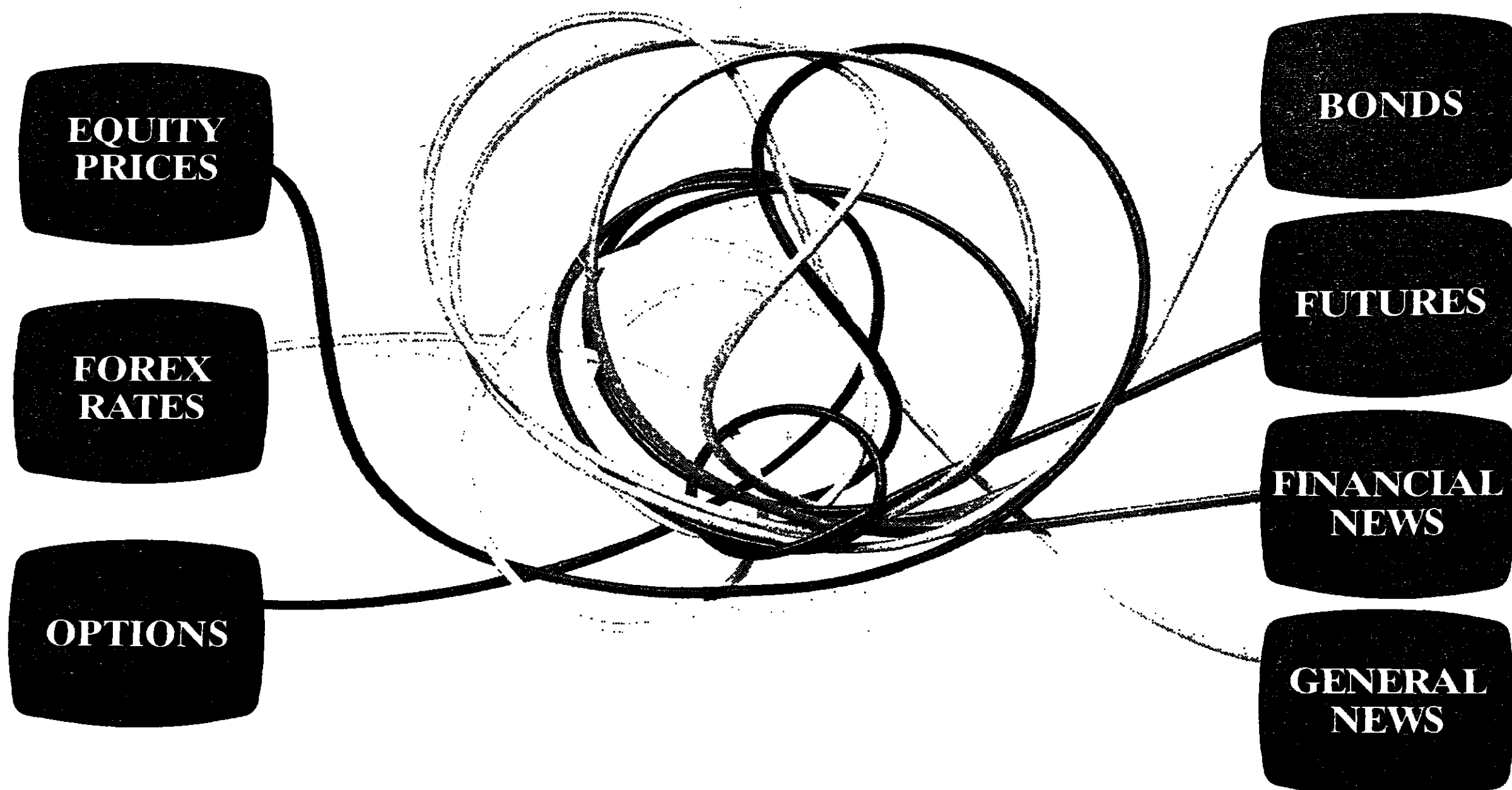
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## INFORMATION TECHNOLOGY IN FINANCE 7

IBM's new PC is the catalyst for change, says Louise Kehoe

## Home banking set for relaunch

IT TAKES an act of faith for US banks to believe that home banking — once viewed as a huge new opportunity to attract affluent customers — will ever take off. After several dismal failures, however, some large regional banks are giving home banking one more try.

Even the strongest proponents of home banking have to admit that it has proved, so far, to be a big disappointment. Last year, Chemical Bank, a pioneer in home banking which first launched its service in 1983, finally gave up its efforts.

Breathing new life into the concept of banking via a home personal computer, however, is this year's launch of the PS/1 home computer by International Business Machines.

IBM aims to transform the personal computer into a standard household appliance — the microwave oven of the 90s — with aggressive pricing, extensive support services, and a big advertising campaign.

Much of the promotional material for the PS/1 focuses on Prodigy, a dial-up information and computer shopping network that includes home banking services. With over 500,000 subscribers in more than 40 regional markets, Prodigy offers a huge base of potential home banking customers.

Prodigy will not say how

many of its subscribers use home banking, but it is one of the triggers that encourages people to sign up for the \$10 per month service, company officials say.

A key feature of the Prodigy home banking service is the ability to pay bills. In the US, where automatic deductions are the exception rather than the rule, bill paying is a time-consuming chore. "Computer checking" offers an attractive alternative to the monthly weekend routine.

Prodigy is expanding at the rate of one important city a month. It aims to have a national network by the mid-1990s. Its potential market is the 9.25 million households that now own an IBM PC, a market that is growing at an annual rate of 30 per cent.

An attraction of the Prodigy service is its monthly flat fee of \$10. Alternative services charge according to the time that the user spends on-line, putting pressure on users to hurry their transactions.

Banking through Prodigy includes Wells Fargo, First Interstate and Manufacturers Hanover.

IBM believes that home computer banking is ready to take off in the US, despite the failures of the past. "A lot has changed since the early days," says Mr William Rynkowski Jr,

of IBM's Financial Services Industry group. "The leisure time of Americans is constantly eroding. People are demanding services that are faster and available when they need them."

IBM's efforts to promote the PS/1 will stimulate demand for home banking, the company believes. US versions of the product include a 2,400 baud modem and a three-month free subscription to Prodigy.

Another effort to revive US interest in home banking is CheckFree, a bill-paying service that home computer users can tap into via the widely-used CompuServe network.

An advantage of the system is that customers can pay any one including businesses and individuals. In contrast, most home banking services can be used only to pay vendors who are registered with participating banks to accept payments.

CheckFree uses three methods to issue payments. Those to registered payees are made through electronic funds transfer via the Federal Reserve System. For individuals or businesses that are not registered, CheckFree issues a paper check.

For banks, these new home banking services represent a low-risk opportunity to attract new customers and retain the loyalty of existing customers.

Unlike the early proponents of home banking, who spent millions of dollars developing their own software and computer networks as well as promoting the services, they can take advantage of the services and advertising budgets of the information services.

Banks joining the Prodigy network, for example, pay about half a million dollars initially, plus a monthly fee of about \$2 per customer.

Another approach to the home banking market is being taken by US Videotel. The company has launched an information service in Texas based upon the French Minitel. Services offered are similar to those available via Prodigy, but the company also supplies the Minitel terminal.

Proponents of home banking maintain that eventually it will represent a huge new opportunity for the banking industry and a great convenience to banking consumers.

The results of these latest US efforts to jump-start the home banking market are, however, still to be assessed. Much will depend upon IBM's success in reviving the home PC market during this year's Christmas selling season. If IBM's PS/1 proves to be a consumer success, then home banking may finally live up to its promise in the US market.

PAYING BILLS can be a bureaucratic nightmare for many companies. Not only is there the need to keep careful manual or computer records of all the sums paid, but the cheques have to be written or printed out and signed. Then they have to be entrusted to the postal system for delivery to the recipient.

In addition, and perhaps most importantly, the company has to ensure that it pays its bills on time but not so quickly as to deplete its own cash pile. All in all the process is time-consuming and inefficient.

For the corporate cheque-writer these days could soon be drawing to an end. The UK's high street banks are now promising their business customers a way of settling their bills electronically.

Electronic messages, known as electronic data interchange (EDI), are becoming increasingly common for the transfer of "paperwork". About 3,000 UK companies now issue order forms or invoices electronically. These documents whizz backwards and forwards over phone lines between company computer systems. They include everyone from retail chains to builders' merchants and shipping companies to stationery suppliers.

Now the payment for the goods, as well as its documentation, could be equally speedy. In response to corporate pressure to introduce electronic payment services, Barclays Bank, Lloyds, Midland and National Westminster Bank are all offering, or planning to

## ELECTRONIC DATA

## Corporate cheque-writing draws to an end

offer, such services to their customers.

Although this could mean cash being taken from companies' accounts more quickly, companies seem to be convinced of its advantages. Respondents to a Midland Bank survey of over 3,000 corporate customers earlier this year identified cheaper processing of payments, better cash management and closer links with trading partners as potential bonuses.

EDI transmission can be considerably cheaper than the post, says Mr Jerry Whitmarsh, senior strategy and research manager of automated business services at NatWest. The cost today of setting an account by cheque can range from about £5 to as high as £30, he says. A payment sent across the EDI network would cost about £2.

On top of that would be a small network charge — of up to 20p per message — plus the need for special hardware and software and subscription, training and support charges.

From the customer's point of

view the system is relatively easy to use. The finance department taps in the details of the bills to be paid — amount, supplier's name, bank account number, date on which the payment is to be made — to the company computer system. This information is then sent electronically to the company's bank, where it is processed. The bank then sends out details to the company being paid, and then on the appropriate day the money is transferred and the documentation sent electronically for company records. This does away with the worry of paying bills late — or early.

From the banks' point of view the system is more complex even though they have vast experience of transferring financial data electronically. The messages are invariably sent across networks owned by a number of different companies.

Firstly there are the EDI networks, run by companies such as AT&T Intel, IBM or International Network Services (INS). Then there are the banks' own

inter-computer network. And thirdly the bankers' automated clearing service (Bacs), the interbank payment service operated by Britain's clearing banks.

For international payments the Swift (society for worldwide inter-bank financial telecommunications) network could also be used.

Although the banks are used to using these banking networks, EDI requires the transmission of documentation as well as money: when a sum is paid into a corporate bank account, the corporate finance department needs a remittance advice in order to balance the books. And in any widespread commercial implementation the payment would usually have to take an extra inter-bank hop, as the odds are stacked against the supplier and customer using the same bank. As a result the big issue now being scrutinised by the banks is how to bring other financial institutions into the trading circle on a full commercial basis.

While that is still taxing the electronic bankers, the EDI network suppliers are looking at other ways of exploiting their communications facilities. One is to use the networks to transmit data relating to the Switch plastic debit cards, a system pioneered by the National Westminster Bank, Midland Bank and Royal Bank of Scotland. Yet another is to use the networks for transmitting documentation for factoring.

Della Bradshaw

## PROFILE: EFTPOS

## New horizons for debit cards

EFTPOS UK was a joint venture of UK banks designed to develop a national clearing scheme for Electronic Funds Transfer at the Point of Sale (Eftpos). In September 1989, the organisation started an inaugural service trial in Edinburgh, Leeds and Southampton. But by the end of April 1990, this trial service had been shut down and the organisation disbanded.

According to the Eftpos UK proponents, the service was terminated because it had achieved its objectives. According to the antagonists it had failed to fulfil its primary task: a single national Eftpos clearing service. There are elements of truth in both standpoints.

The simple fact is that the trial was a success, for the banks, the retailers and the customers. However, it was also too expensive to run and most importantly it had the effect of eliminating competition between the banks themselves while at the same time effectively being in competition with the banks.

One of the effects of Eftpos is to make all the banks look alike to the customer, and this makes it less possible for the more aggressive banks to compete for new customers. So Eftpos UK was shut down, and

now at the point of sale, and passing it on to the relevant bank. The AT&T Intel service is batch Eftpos, as opposed to Eftpos UK's on-line service. Batch Eftpos requires that transaction information be stored in the retailer's own terminal from where it is, in the technical jargon, detanked on a regular basis.

On-line Eftpos requires a direct link to the customer's account. This is expensive to run, and, for the customer, surprisingly slow: the customer has to wait for the system to establish the link with the remote account. This means that it remains possible for the customer to enter a transaction without having the funds to clear it.

There are two safeguards in the AT&T Intel service. Firstly, each retailer's terminal can store a "floor limit". If the transaction is in excess of this limit, the terminal will automatically dial the service and obtain an authorisation code for the retailer. The second safeguard is the storage of "hot card" details within each terminal. A hot card is defined as a debit card that has either been reported as stolen, or for which credit has been stopped by the issuer. Hot card updates are automatically downloaded by AT&T Intel to all participating terminals every night.

Switch has moved the emphasis from the Eftpos UK clearing house to independent third party service providers and this opens up a completely new set of possibilities. These service providers are, after all, just computer systems houses with extensive networks and large computers.

The future of Eftpos is thus likely to see a growth of value added services provided by the data handlers. The retailers' terminals already capture the financial details of the transaction. It is but a short step of the imagination for them to capture product details as well. Once this is done, the service provider could not only supply an Eftpos service, but could also efficiently become a complete back office providing an automatic stock control and re-ordering service.

AT&T Intel in particular also operates one of the UK's main Electronic Data Interchange (EDI) networks and it is again a short step of the imagination to see these third party providers not merely clearing financial transactions, but also automatically re-ordering stock as and when necessary.

Eftpos is, then, merely the tip of the iceberg for future automated transactions. The irony is the customer has no say in its direction. It is banking habits that will be changed, but they will be changed in accordance with the wishes of the retailers and the banks. Customers will have to be more vigilant. Computers do not make (many) mistakes; but operators and communications lines do.

How many people rigorously check their statements? In future this will be necessary, if only to ensure that a debit has not been made for someone else's transaction. And what of the spectre of having a debit card incorrectly reported as stolen? While the banks and the retailers argue about who should pay for Eftpos, who is looking after the interests of the customer?

Kevin Townsend

## The future is likely to see a growth of value added services

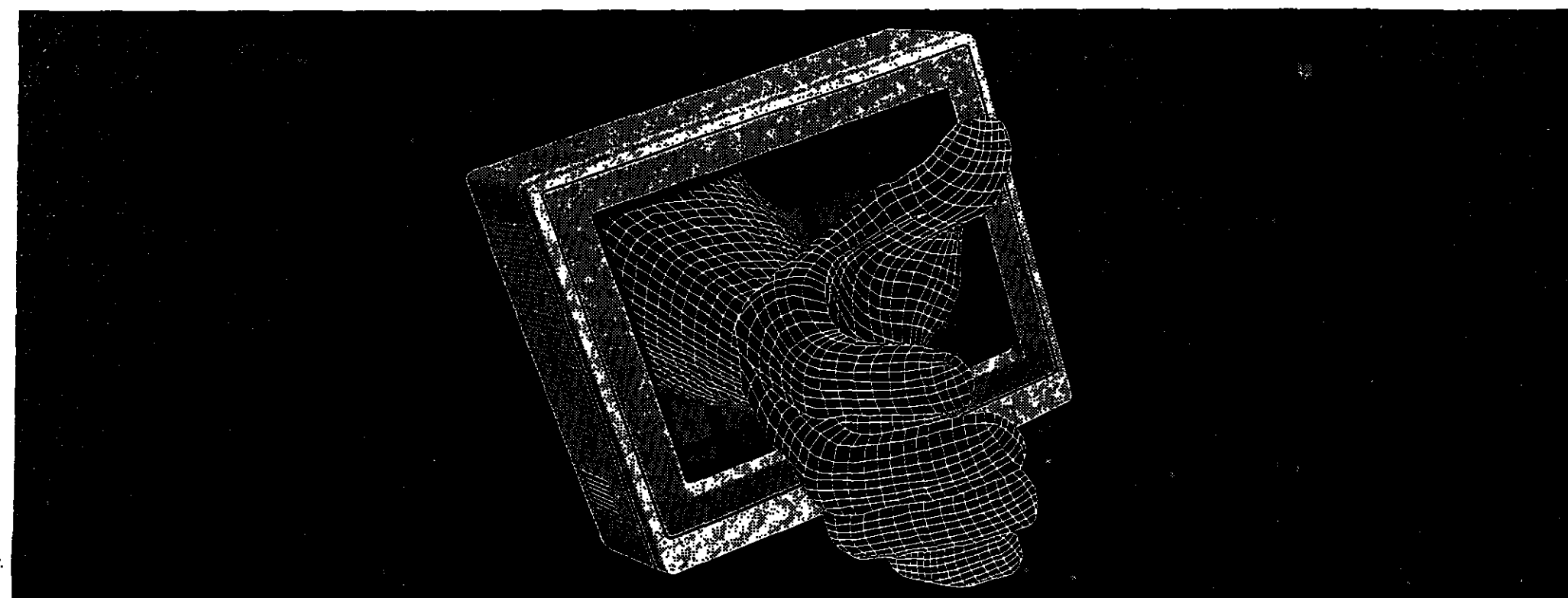
the emphasis has now moved from a single commercial clearing service to multiple third party services.

Technical guidance for Eftpos is now largely driven by the Association for Payment Clearing Services (Apcs), the organisation that includes Bacs, Chaps and the Cheque and Credit Clearing Company. Commercial usage is driven by a new non-commercial organisation called Switch.

Switch was originally started by National Westminster, The Royal Bank of Scotland and Midland, but most large banks and some Building Societies. It has two operational differences to Eftpos UK. Firstly, it includes a strongly competitive element, and secondly it involves the use of a number of different third party service providers (AT&T Intel, Centrefile and Compare being the most important).

The competitive element can be seen in the recent case involving Barclays. While Eftpos UK was in operation, Barclays continued to develop its own national debit card scheme. By the time it was invited to join Switch, this scheme was already well established. Switch, however, required Barclays to abandon its own card for the Switch card. Barclays disagreed, saying it would like to join, but to continue using its own card as well as issuing Switch cards to its customers. Barclays took the case to the Director General of Fair Trading and won. Barclays is now a member of Switch, making it a truly national service, but still also operates its own debit card scheme.

Competition also exists between the third party service providers. These are really little more than data capture services, taking data from termi-



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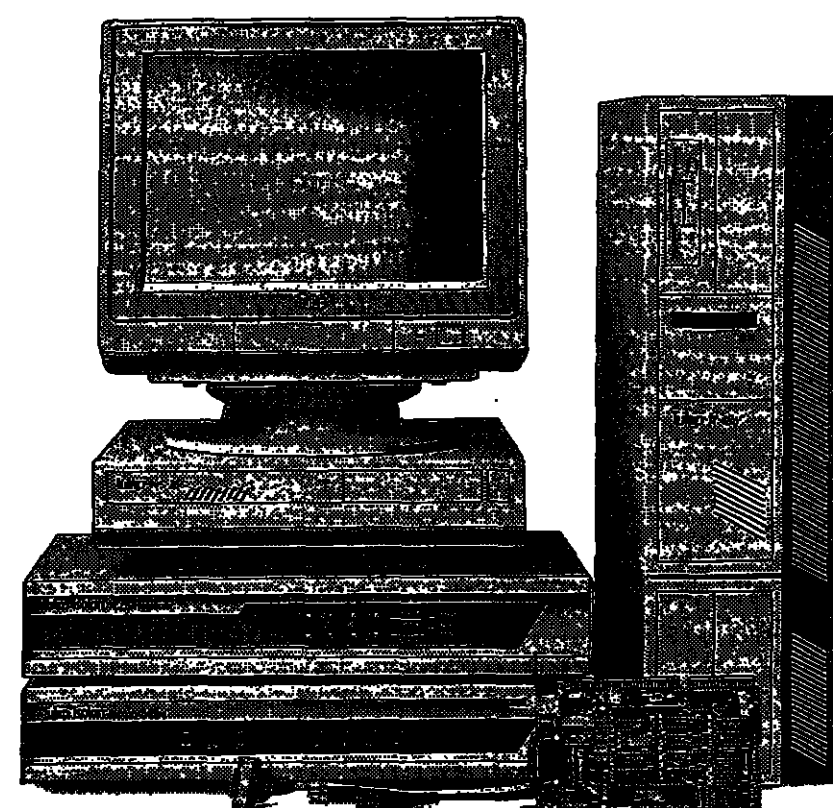
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## INFORMATION TECHNOLOGY IN FINANCE 8

## EXPERT SYSTEMS

## Speed, with brains

THE PROSPECT of using computers to make difficult financial decisions quickly and accurately is exciting, but until recently the use of expert systems and artificial intelligence technology in finance was largely confined to a few well-publicised experiments and pilot projects.

The financial sector started tinkering with expert systems in the early 1980s. There were predictions that powerful new applications would dramatically extend the role of information technology into the field of human judgment. Soon no self-respecting bank, stockbroker or insurance company lacked a small team investigating the applications.

In the event, the first wave of expert systems were, in business terms, of limited use if not completely ineffective.

Many of the pioneers of AI in banking, using the limited software tools available, tried to build over-complex systems to mimic the quick, intuitive decision-making of money market dealers and analysts. This was one of many wrong turnings that expert system developers have taken.

Expert systems, like all computers, need to be pre-programmed with knowledge, usually in the form of rules which the computer can follow to make its decision. This means that expert system analysts have to "capture" human knowledge and find a way to model it on the computer.

"Expert traders" floundered at the first hurdle: "It proved to be very difficult because the dealers themselves often don't know how they do what they do - so how can they tell anyone else?" says Ms Christine Guilfoyle of the computer research company Ovum.

Even the expert trading systems which have been technically successful are not necessarily of great commercial use. The key to expert system use is to capture and distribute expertise for others to use. But, as Mr Charles Unwin and Mr Stephen Coghill of Logica point out in a recent paper: "It is very difficult to persuade one trader to trade on the simulation of another's knowledge, especially if that knowledge is not readily explained by the system."

Over the past two to three

years, the financial sector has realised that expert systems must be simple, the logic must be transparent to the user, and they are most useful in areas where the process of applying human expertise is not so deep or intuitive as to be incomprehensible to others.

"Repetitive high-volume applications that often require some kind of human judgment lend themselves to AI," concludes a recent report on insurance systems by Input, the market research company.

In insurance, for instance, the most promising areas are in underwriting, loss adjusting, claims processing and personal financial planning. Many of the most effective expert systems are simple and use the computer's speed.

The securities house BZW, for example, has used simple expert systems to spot quickly patterns of behaviour which might indicate a breach of the Chinese wall between corporate finance and the securities trading side.

A further key to unlocking the potential of expert systems is integration. At first they were developed separately from other applications, often secretly. But the most effective are linked directly to existing computer applications. "No expert system we have ever built is an expert system on its own," says Mr Royston Sargent, business development manager for the expert system division of PA Consulting.

Companies are increasingly integrating expert systems with their corporate mainframe applications. The most successful concentration is on downstream activities where a bottom-line impact can be made. In banking, this might be in credit checking or loan approval.

Mr Peter Wemyss, sales director of Syntelligence International, which sells expert systems for banking and insurance, points out that in banking: "Small improvements in quality can have a significant bottom line impact."

Syntelligence, started in the US in 1983, spent more than \$20m developing its PC and mainframe-based expert systems for loan approvals and commercial underwriting. Unlike many expert system products, Syntelligence is sell-

ing systems with in-built knowledge about loan approval and underwriting methods; it is not just selling software enabling a company to build its own expert system.

Sun Alliance, the only European user, was so impressed by the underwriting and loans system that it has taken a majority stake in Syntelligence International of the UK.

More than 600 Sun Alliance underwriters now use the system for assessing commercial underwriting risks. Underwriters based anywhere in the organisation enter client details into the system, with their own subjective assessments of factors such as the standards of safety at a factory. The system uses its growing and constantly updated knowledge-base to suggest a premium. The underwriter is not bound to follow the recommendations, but usually will. Similar systems are being used by several major banks for loans approval.

In the UK, all the big banks see expert systems as the way forward for developing effective loans approval systems, especially for time-consuming and detailed corporate business. Midland Bank has developed an IBM mainframe-based Credit Assessment System; it is used to assess loans applications, handles renewals, semi-automatically and calculates repayment levels and schedules.

One benefit of using mainframe-based expert systems for loan approvals and underwriting is that corporate expertise can be made immediately available in the branches. Both the quality of the loan and the speed of approval can be improved. Midland says it has significantly improved its corporate business since it introduced its system.

The use of expert systems has been largely advisory only in a few applications where human experts have been replaced. However, as the quality of advice which they can give improves, companies will be tempted to cut the number of semi-skilled staff making relatively low-level decisions.

Eventually, the use of expert systems will also move higher up the skill ladder.

Andrew Lawrence

## SMART CARDS

## France leads while the rest hang back

SMART CARDS with embedded microchips are essentially just personal computers on a plastic card. In Britain they are still generally treated as a solution looking for a problem.

For evidence of serious investment in the technology it is necessary to look to France. They were invented in France in 1974 and the French government has supported their development heavily over the past ten years. The leading French manufacturer of large computers, Bull, has established a strong lead.

Most of the major French banks have adopted Bull's CP8 card. Several million of their customers hold smart cards and most bank customers in France will be able to have one by next year.

The banks' motivation is two fold: they see the new cards as a way of saving money and, perhaps more importantly, as a way of combating fraud.

Smart cards will be extremely hard to copy; it will be so expensive to do that criminals will probably turn to something else. It may also be possible to use an access method harder to penetrate than the present personal identification (PIN) number.

Mr Mark Wheeler, a principal consultant with management consultancy SRI International, says that the fear of fraud will probably be the driving influence in spreading the use of smart cards worldwide.

The French Ministry of Health has embarked on a smart card system which will let people carry their medical records around with them, speeding up the service and ensuring better diagnosis and treatment.

French pay-television has introduced smart cards for decoding satellite broadcasts and for payment. The Canal Plus channel has 160,000 in use.

France Telecom has a sophisticated smart card in use ahead of its European rivals. Groupe Spéciale Mobile (GSM),

the pan-European cellular phone initiative, will involve smart cards on a large scale and here too the French have gained prominence.

The French card manufacturer Gemplus and its software partner Innovatron are involved in the preparatory stages of GSM. If they win a contract in phase one in 1991 they may secure a stronghold from which to influence the international standard.

France has thus invested in a sophisticated infrastructure which may not be extensively used for a number of years, but which will allow organisations in many areas eventually to benefit. It puts them in closer contact with customers and eases the introduction of new products and services.

Why have Britain and other European countries not followed? The answer is partly official policy and partly a mixed response from the likely proponents - banks, retailers and other large companies.

According to Mr Colin Gunner, product manager for Bull,

## Packaged software in vertical markets is so far scarce

there is no great difficulty about the technology, long surrounded by an unjustified mystique. Trouble with reliability has been reported, but it is thought to be relatively minor.

Nor is there a problem with the cost of manufacturing, which has been falling in line with other computer hardware.

For the British government, the philosophy of non-intervention has clearly been paramount. The banks have held back, wishing to get the most out of their investment in the current generation of cash dispensers.

For many potential users the drawback is the high cost needed to develop special software; packaged software for smart cards in vertical markets is so far scarce.

Another deterrent is the high cost of investment in marketing for whoever wants to be the trailblazer. Mr Alan Snow, sales and marketing director of banking software company Comex Europe, compares the development of smart cards to that of compact disks. "The technology is mature enough. All that is needed is someone who is willing to pay the price of the marketing push."

British banks are following cautiously behind the French. Barclays has experimented with smart cards at a social club and the results were reported at a seminar in London in October, but the bank made no firm commitment to introduce the technology more widely. Midland Bank has held trials at Loughborough University, with a card developed by

## Retailers remain strangely unaware of the benefits

GEC, but again no definite commitment has been announced.

British Telecom could have gone for a smart card for its charge card but opted for a simpler and less flexible memory card, probably because of the high cost.

Retailers have an interest in smart cards because they offer a means of increasing customer loyalty and introducing new services. But smart cards can be fed into small terminals and do not have to be online to a mainframe computer.

But British retailers remain strangely unaware of the possible benefits, according to Mr Philip Todd, a consultant with market research company BIS Macintosh.

Across Europe niche applications are spreading. Norwegian, Spanish and Italian banks are starting to follow the French. Norway's PTT is using France as a model for its experiments. The British Department of Health is experimenting with patient cards at hospitals, surgeries and pharmacists in Devon. Two Swedish television channels use smart cards.

The academic environment also has potential. University students in Rome and Paris hold smart cards as a general pass to campus services as well as to keep educational information. Smart cards for students could be a canny investment for banks, because the cash can be more tightly controlled and they can turn impecunious youngsters into loyal affluent customers in later life.

On the horizon looms the supermarket card, still at the rudimentary trial stage. This card, in which only the Japanese are so far interested, will have a keyboard and display on it and will have almost unbreakable security.

George Black

## SWIFT II

## More for more users

SWIFT, a London banker recently noted, is part of the wallpaper. That is certainly how the international funds transfer network likes to be seen.

Its latest incarnation is Swift II, but that is not a tag welcomed by senior staff at Swift's Brussels headquarters. Mr Alec Nacemul, executive vice president of Swift, asserts that the term "is a misnomer - it is just another bit of the original Swift that is now up and running. The financial community has been waiting for this 'son of Swift' for several years. So Mr Nacemul's determination to avoid calling it Swift II owes rather more to politics than technical assessments.

Swift was born out of common interest in the banking community and went live in 1977. The demand for electronic settlement services is witnessed by the growth of the Swift empire. Users now number 2,900 across 73 countries. Every day 1.3m messages are processed through Swift. New services are arriving and fresh banks are being recruited. The National Bank of Cuba, for instance, signed on in June.

This growth quickly revealed the limitations of the original network. Demand was stretching capacity and a revised network with new switches was needed. The project was agreed in the early 1980s and originally slated to begin operation in 1986. And in spite of current protestations from Brussels headquarters the long-awaited sequel to Swift is still known to a global customer base as Swift II.

This second phase went live on May 21 this year. Testing, implementation and the job of migrating 2,900 users will take until mid-1992 to complete. By that time Swift subscribers will have access to a range of attractive options. Transactions will be archived online and held for up to four months. Bank staff arriving at work after long weekends can evade the deluge of Swift messages that now engulfs their screens. When they log on priorities can be arranged, ordering the appearance of messages.

It may not sound very spectacular, but Swift II is typical of advances in technology. It offers relief from irritations that have plagued regular users by introducing small practical improvements.

Mr Nacemul is characteristically tactful on the nature of Swift II: "It is more operational," he says. Which is to say, more users will have less to grieve about.

The venue for user feedback is a formidable annual feast, Sibos. This year's show took place in Berlin with the theme of Innovation and Risk. Those delegates who did not defect to the German Unification celebrations outside the conference centre had plenty to discuss.

Two new services have arrived at a Swift Interbank File Transfer (ITF) is intended to send bulky paper transactions down Swift lines rather than through mail or telex. It offers an electronic parcel service with a built-in bulk discount.

Previously it did not make sense to use Swift for low value payments. Now banks need not mail hundreds of paper warrants for small dividend payments - as long as they accept certain technical restrictions inherent in ITF.

Accord offers a common service for bank to bank confirmation of foreign exchange and money market deals. Plenty of international banks have developed or bought in their own systems for checking the small print on these deals. However, the lack of common architectures means that a trivial mistake at one end of the line is not highlighted at the other for two or three days. The selling point of Accord is that banks can get around each other's weak points by taking out a subscription. This is cheaper than buying more computers for in-house use. In comparison with ITF, Accord introduces subscribers to the latest weapons in Swift's technological arsenal.

The consortium has just spent \$5.5m on computers from



More users (above) will have less to grieve about, or, in the words of Alec Nacemul, executive vice president of Swift (below), it is now more "operational"



Stratus. Designated as fault-tolerant, these mini-computers are designed with the banking environment in mind. Processors are doubled up so in the event of one failing the other switches in. The name of the game is non-stop running 24 hours a day.

Buying these machines meant a move away from Swift's traditional supplier, Unisys. This may explain Mr Nacemul's reticence concerning Accord. "It is an additional service. It is not Swift II," he insists. No such cynicism from Stratus, which had a computer demonstrating Accord at Sibos.

Members of the Swift consortium have their own ideas about where electronic payment methods are going. Nat West has just launched Bankline Interchange in the UK. This is an electronic trade payments service for companies subscribing to commercial electronic data interchange (EDI) facilities. Parallel to clearing the payment Bankline Interchange carries out routine bank administration. The idea is to finance the service by cutting out manual intervention and subsequent errors.

"There is a perceived need

among our customers for this sort of service," says Mr Jerry Whitmarsh, a strategy manager at Nat West. His was one of 61 banks from 17 countries to attend the first meeting of Swift's EDI project in July. Swift is being called on to match EDI initiatives from these banks with a service of its own.

EDI will characterise the next decade of international bank transactions, taking the electronic message service beyond the present bounds of Swift. Mr Whitmarsh says that banks could set up their own EDI communications independent of Swift. "This would not be prohibitively expensive. Banks would seek out overseas partners for reciprocal clearing of transactions. An institution in England could nominate a bank in Australia to act as a channel for any EDI service provided the UK bank returned the compliment with its own data network."

Abandoning the Swift consensus is not a serious option in the near future. For one thing, the banks are comfortable with the operation so far. "It is a secure network and we are familiar with it," says Mr Whitmarsh. "But if Swift could not accommodate EDI, we would find an alternative." Since EDI looks set to assume prominence in financial transactions, Swift will have to find a way of reconciling the opinions of its members on the issue of standards and timetables.

After the turmoil of getting Swift II up and running it is not a subject Swift's management cares to discuss. Mr Nacemul dismisses speculation on the next decade. "Who can look ten years ahead?"

The fundamental attraction of electronic banking networks is not in doubt. But all banks within Swift are looking to the future. How far they take the men from Brussels with them is open to question.

Michael Dempsey

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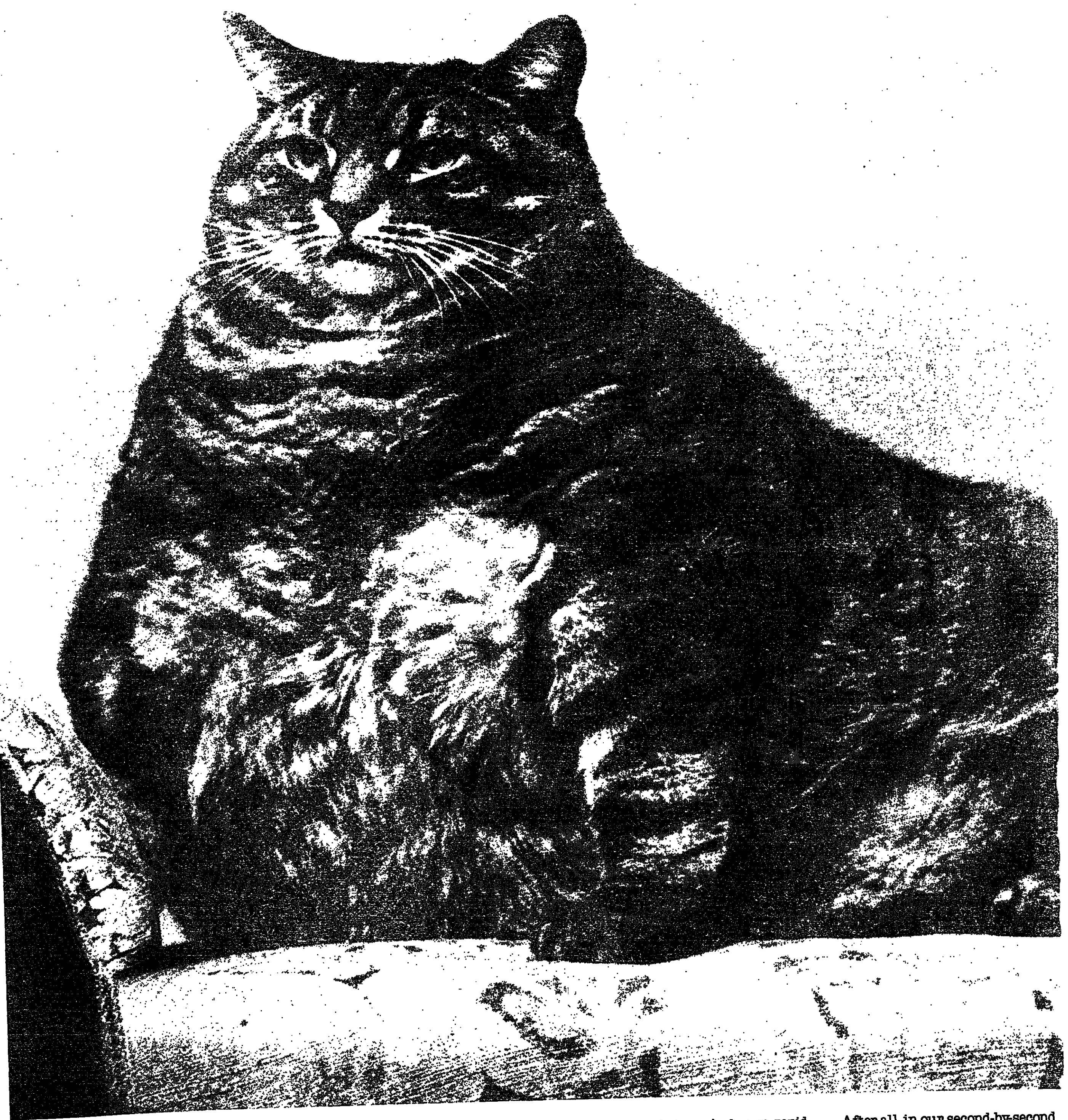
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## INFORMATION TECHNOLOGY IN FINANCE 10

## IMAGE PROCESSING

## New system looks good on paper

IN THE 1970s, COMPUTING was hailed as bringing an end to office paperwork. But in the event it was a powerful generator of paperwork; business, already struggling to deal with the "file-flopper" problem, suffered a new avalanche of word-processed documents.

Research in the US has shown that banks and insurance companies top the league of paperbound organisations.

The financial services sector has many specific paperwork problems. Because of the importance of the handwritten signature for authentication, original documents or good copies of them must not only be kept, but they must be available for retrieval at short notice. Many institutions are forced to store large quantities at expensive and often highly automated archiving centres.

Banks, building societies and insurance companies are not only concerned about the cost of archiving, however. Most have business strategies in place to devolve decision making to the branches while, at the same time, centralising support services, customer accounts and information.

Customer documentation, in the form of insurance policies, mortgage documents and other non-computerised correspon-

dence, poses a tricky problem: customer service demands that documents are available for immediate local use, but volume and strategic considerations demand that they are stored centrally.

It is not surprising that the financial services are expected to become huge consumers of document image processing (DIP) systems. This technology enables original documents to be scanned at high speed and then indexed and stored on high-capacity optical disks for long-term storage or immediate retrieval. They can be electronically distributed between locations if the user has a network.

For most applications, DIP has only recently become commercially viable, largely because optical disks, capable of storing tens of thousands of original document images, have improved in quality and

fallen in price. Ovum, a computer research company, predicts that the average price of a multi-user DIP system will fall from \$750,000 in 1989 to \$400,000 in 1994.

Market researcher Dataquest puts the market for DIP systems at \$30m by 1993, while others put it at twice this.

Competition between suppliers is already intense. The original pioneers of commercial DIP systems, notably Philips, Olivetti FileNet, Xerox and Wang, have now been joined by International Business Machines, with its Imageplus system, and DEC, which is working with Kodak. National Cash Registers, ICL, Unisys, and many other companies are also entering the market.

The financial sector is their most important target. The big potential customers share several needs; large volumes of

unstructured documents in storage; fast and efficient customer service is important; and the main market where they operate is neither electronic nor centrally regulated.

One merit of DIP is that a variety of original documents can be stored and indexed under the customer's name. In 1989, a study by Coopers & Lybrand found that three quarters of UK insurance companies intend to adopt DIP within five years. Many of the systems now being installed or planned are pilots: Norwich Union, one of IBM UK's largest customers, is the first company in Europe to install IBM's mainframe-based Imageplus system, while Commercial Union is working with Philips to develop a system to work alongside its IBM mainframes. All the leading high street banks are working on DIP systems.



Nat West Card Services, which uses the Olivetti FileNet system to store copies of transaction documents

Perhaps the best known in use in the UK is at the Britannia Building Society, where an Olivetti FileNet system has since 1987 stored all Britannia's detailed customer files. Each morning documents are scanned into the system as they arrive in the post; mort-

gage clerks can then call up correspondence on their screens. The system is linked to the ICL mainframe. However, the experiences of DIP pioneers have also demonstrated that not all the technical or organisational problems have been overcome. One of

the biggest technical drawbacks is the amount of raw power needed; one A4 scanned page can use more than 50 times the computer memory of one A4 wordprocessed text. DIP is still expensive and benefits business only when it is carefully integrated.

There are also legal issues: companies would like to throw away the original documents. However, the legal status of scanned documents has yet to be clearly established in either Europe or the US.

Andrew Lawrence

## SECURITY: A management as well as a technical problem

## Crime as a business risk

COMPUTER HACKERS continue to grab the headlines, even though their activities are now illegal in the UK, but Information Technology managers would do well to worry about other aspects of security.

Nobody dismisses completely the menace from hackers, and their weapons such as worms and viruses, but a more dangerous threat comes from a company's own employees - "the enemy within" as one expert put it, and not from external hackers.

The problem of "integrity" is potentially even more costly. Protecting software against a crash, closing off all its services, is in many cases more important than guarding against crime, although the two problems can often be tackled together.

For example, both banks and supermarkets, whose competitive advantage often relies on the speed and reliability of transactions would be unlikely to survive a total computer crash for more than a few days. Customer confidence would be irretrievably damaged.

Combating deliberate computer abuse is now seen as a pragmatic business decision,

made as a trade-off with other important factors. Security so excessive that the system's convenience for customers is forfeited does not, after all, make good business sense - it is fast becoming a cliché that user friendliness correlates with abuser friendliness.

Decisions on spending to avert fraud should also be traded off against the cost involved.

Mr Rod Perry, partner responsible for information

**User friendliness correlates with abuser friendliness**

systems security at Coopers and Lybrand Deloitte and

chairman of the European Security Forum, says: "Our view is that a security decision stems from an analysis of business risk." He says managers should assess the risk by asking how much any potential security breach would cost. If these costs are less than the costs of increasing security, the risk is worth taking.

He adds that much of the problem comes from the influ-

ence of the military in working on the issue. "By and large, business does not suffer from the same kind of paranoia as the military. It is proper for the military to put security first, and I've no quarrel with that. But you could lose efficiency, inhibit users and spend more money than sensible procedures would result in, just to thwart a relatively minor risk."

Another problem with assessing computer fraud is that some people even doubt whether the term has any true meaning in an age where virtually all frauds must involve using a computer at some point in any case.

Mr John Fitzgerald, consultant and specialist in computer security for Ernst Young, put it forcefully: "I would go so far as to say the whole concept of computer fraud is a useless concept. For example, in the 1920s when the first person

robbed a bank using a motor car to escape, somebody might have called it a car crime. But it's very unhelpful to call any crime involving a car a car crime."

"Computers are now just as ubiquitous as cars. When somebody steals from an automated teller machine it involves a computer but I certainly wouldn't call that computer crime."

The difficulty in measuring the scale of the problem bears this point out. Mr Don Parker, computer security consultant at SIR International, spent years attempting to compile statistics on the subject, only to conclude that no valid statistics were available.

However, in spite of all these caveats, nobody denies that new technology has given fraudsters attractive new avenues. Evidence, shrouded though it is by companies' reluctance to reveal embarrass-

ing thefts, points overwhelmingly to heightened losses, and increased expenditure to combat them.

A Price Waterhouse survey found that 66 per cent of UK computer installations had suffered financially as the result of some breach of computer security. The damage was "major" or "crippling" for 7 per cent of them.

Spending on security has also risen sharply. Price Waterhouse found that 5 years ago 26 per cent of installations spent nothing at all on security - this figure has now shrunk to 4 per cent, and companies disregarding security altogether are expected to disappear completely by 1995.

Meanwhile, the average amount spent on security on new systems has increased from 5 per cent five years ago to 9 per cent now.

of an important UK company says: "What is all this talk about computer security? It all comes down to juggling with passwords in the end."

Mr David Freeman, partner in Arthur Andersen & Co,

**"What we need is a disaster . . . too big to hush up"**

opposes the hype surrounding security, which he views as part of a business trade-off, but adds that computerisation has increased security risks for companies.

The sheer portability, scale and interconnectivity of electronically held data makes life easier for the thief. Mr Freeman demonstrated this by producing a disc, small enough to fit in a coat pocket, containing all of Andersen's most sensitive market strategies, plus

plenty of information on companies being audited which could potentially alter equity prices.

Before computerisation, a thief wanting to steal this priceless information would have needed to remove a library of documents.

Nobody suggests that any theft on this scale has happened yet, but some think that one would help to shake IT managers into action. One expert goes so far as to say: "What we need is a disaster, a real big one. One too big to hush up."

The response, however, is not a matter purely for technology - it is an issue for management.

The Confederation of British Industry has recognised this, and pointed out: "Management has to take very great care to make sure staff know the levels of authorisation. We have always seen this as a two-way thing - management has a positive duty to its staff."

Mr Freeman, engaged in disentangling a corporate fraud involving computers, concluded that it could have been avoided simply by applying the same old-fashioned seven principles of internal control that

all young accountants must learn.

These are as follows: ● Segregation of duties. Doing a job, and reviewing it, should be separate jobs for separate people.

● Personnel policies. For example, new employees should be screened to see if they represent a security risk. ● Arithmetic and accounting controls. Transactions should be checked regularly.

● Management controls. Responsible people steer the ship.

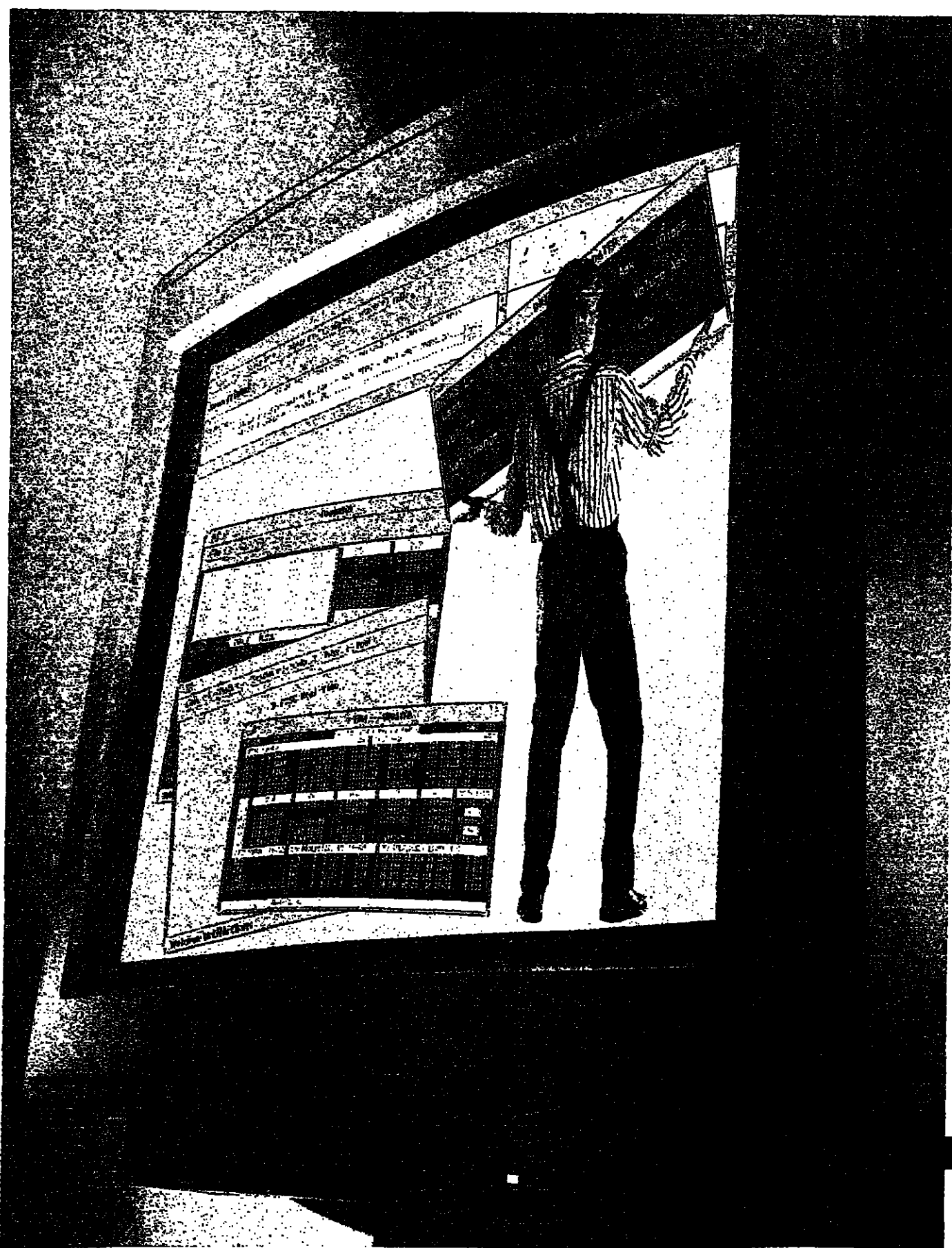
● Organisational controls. Management structure should be clear and coherent.

● Authorisation. Computer passwords are harder to forge than the old signatures on documents.

● Physical controls. All of the above, coupled with limitless high-tech security, will be of no use if a thief can walk into an office and take the disc from the chief executive's secretary's word processor.

IT only provides a new tool to commit the same crime. The scope is greater, but the same old managerial weapons will deter it.

John Authors



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